

Malaysia Company Guide

Bursa Malaysia

Version 16 | Bloomberg: BURSA MK | Reuters: BMYS.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Jun 2020

FULLY VALUED (Downgrade from HOLD)

Last Traded Price (18 Jun 2020): RM7.43 (KLCI : 1,504.91)

Price Target 12-mth : RM6.00 (-19% downside) (Prev RM6.40)

Analyst

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What's New

- 2Q20 to be a strong quarter as equity trading activity reaches new highs
- Current excitement may be transient in nature; may not extend past the year
- Raise FY20-22F earnings but positives already priced in
- Downgrade to FULLY VALUED with lower RM6.00 TP

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	480	601	566	592
EBITDA	277	397	357	379
Pre-tax Profit	256	373	333	355
Net Profit	186	280	250	266
Net Pft (Pre Ex.)	186	280	250	266
Net Pft Gth (Pre-ex) (%)	(17.0)	50.5	(10.7)	6.5
EPS (sen)	23.0	34.6	30.9	32.9
EPS Pre Ex. (sen)	23.0	34.6	30.9	32.9
EPS Gth Pre Ex (%)	(17)	50	(11)	6
Diluted EPS (sen)	23.0	34.6	30.9	32.9
Net DPS (sen)	20.8	31.1	27.8	29.6
BV Per Share (sen)	94.1	97.6	101	104
PE (X)	32.3	21.5	24.0	22.6
PE Pre Ex. (X)	32.3	21.5	24.0	22.6
P/Cash Flow (X)	32.0	20.2	21.0	20.2
EV/EBITDA (X)	15.2	10.6	11.7	10.9
Net Div Yield (%)	2.8	4.2	3.7	4.0
P/Book Value (X)	7.9	7.6	7.4	7.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.7	36.1	31.2	32.2
Earnings Rev (%):		34	11	12
Consensus EPS (sen):		27.1	26.3	26.6
Other Broker Recs:		B: 10	S: 3	H: 3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Exuberance is baked in

Not a new norm. Bursa Malaysia (BURSA) is expected to enjoy another strong quarter in 2Q20 as equity trading activity hit new highs in May – average daily volume and value traded stood at 7.4bn and RM4.3bn respectively. This was mainly driven by sizeably larger retail participation of 33% (5-year average: 19%) during the Movement Control Order (MCO) period. Effective clearing fees will also be elevated due to the larger retail trading footprint. Though circumstantial, we gather the six-month loan moratorium may have a part to play in this as more than 30% of disposable income is spent on loan repayments. Thus, we posit that the current activity level is unlikely to sustain past the year, and has been priced into the stock's current valuation of 27x forward PE. Downgrade to Fully Valued.

Where we differ. While our earnings estimates are lower than consensus', we think the transient nature of the current market dynamics may not be adequately considered.

Potential catalysts. Revisions to BURSA's fee structure (e.g. listing fees, clearing fees) and a downscaling of its surveillance role would unlock its earnings potential. For now though, this seems unlikely given the competitive environment.

Valuation:

Downgrade to FULLY VALUED. While we revise our FY20-22F earnings upwards by 11-34%, our target price (TP) falls to RM6.00 after recalibrating our dividend discount model (DDM) assumptions. Its current valuations are at +1SD of the 5- and 10-year means and we see little avenue that it could hit previous highs of 32x barring unexpected endurance in current market activity.

Key Risks to Our View:

Higher-than-expected equity trading activity. Our sensitivity analysis shows that every 5% increase in average daily trading value would increase BURSA's FY20F net profit by c.4%.

At A Glance

Issued Capital (m shrs)	809
Mkt. Cap (RMm/US\$m)	6,007 / 1,403
Major Shareholders (%)	
Capital Market Development Fund (%)	18.6
Kumpulan Wang Persaraan Diperbadankan (%)	11.6
EPF (%)	7.2
Free Float (%)	54.3
3m Avg. Daily Val (US\$m)	6.5
GIC Industry : Financial / Diversified Financials	



DBS
Live more, Bank less

WHAT'S NEW

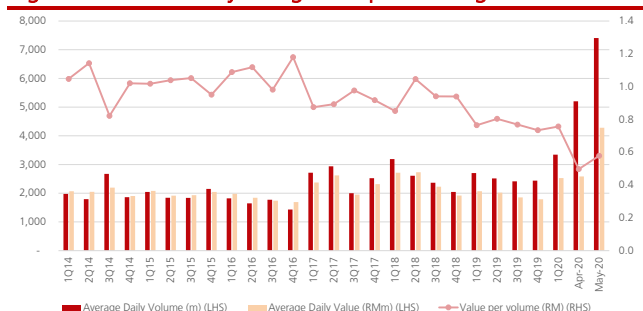
Retail-driven offensive, but for how long?

Big spikes in trade volumes. Contrary to our expectations of market activity tempering following BURSA's 1Q20 results in early May, trading ramped up further, reaching all-time highs for average daily trading volume (ADVOL) and value (ADVAL) at 7.4bn and RM4.3bn respectively by the end of the month (see Fig.1). However, value per unit of volume traded had shrunk to RM0.50-0.58 (see Fig. 2) on the back of increased retail transactions (typically lower value/volume traded) and a steep market sell-off back in March. Even if there is a collapse in trading activity in June (which itself is unlikely given the exuberance demonstrated so far), 2Q20 is expected to be a robust quarter for BURSA's earnings. Equity trading revenue historically accounts for c.50% of the company's turnover, though we expect this to hover closer to 54% in FY20.

Retail segment a major party to this. Substantially higher retail participation has largely been attributed to the surge in trading activity since March (see Fig. 3). Domestic retail participation has expanded substantially in the months of April and May at 33% of total value transacted. Comparatively, the 5-year historical average for domestic retail participation was 19%. Based on newswires, central depository system (CDS) account openings surged by 184% y-o-y in March 2020. Recall that effective clearing fees tend to ebb and flow with retail participation due to the smaller ticket size on average – clearing fees are charged at a rate of 0.03% of transaction value, subject to a RM1,000 cap for trades going beyond RM3.3m. With the more sizeable retail trading activity, expect much higher effective clearing fees in 2Q20.

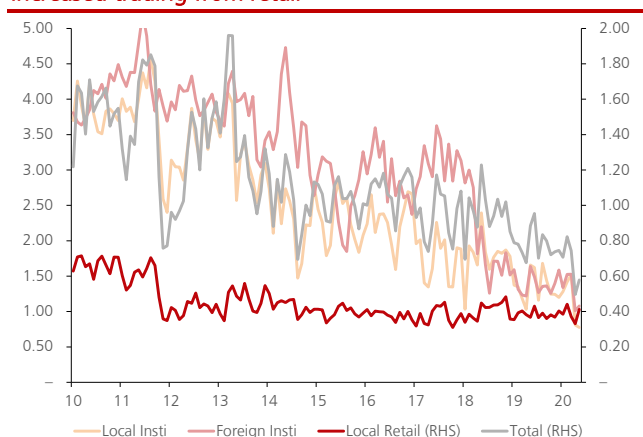
Exuberance likely to ease down the line. Coincidentally, the spike in retail participation was even more elevated since the six-month moratorium was instituted on 1 April 2020. Based on Bank Negara Malaysia's (BNM) latest financial stability report, the median debt service ratio (DSR) for outstanding loans stood at 37%. With the six-month moratorium on retail loans in place, it would not be a stretch to presume that a portion of these savings would be channelled towards investments, equities included. The closure of number forecast operators and casinos could also play a part in the increased retail participation. While the evidence seems circumstantial, we still posit that the current level of trading activity is unlikely to be sustainable over the course of 2021. ADVOL and ADVAL are likely to moderate past October when the moratorium ends and loan obligations resume.

Fig. 1: Brute forced by a huge bump in trading volumes



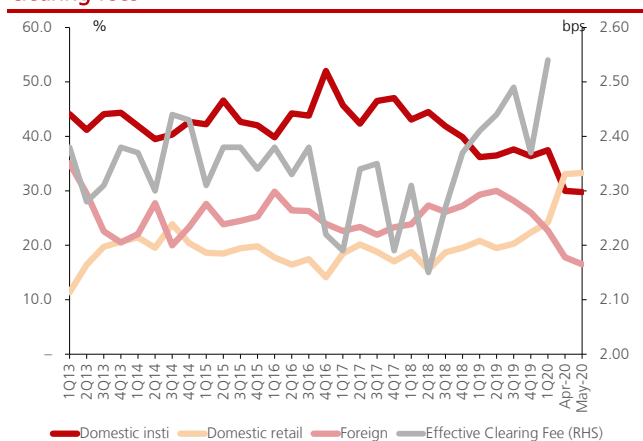
Source: Bloomberg Finance L.P., AllianceDBS

Fig. 2: Lower values per unit volumes can be attributed to increased trading from retail



Source: CEIC, AllianceDBS

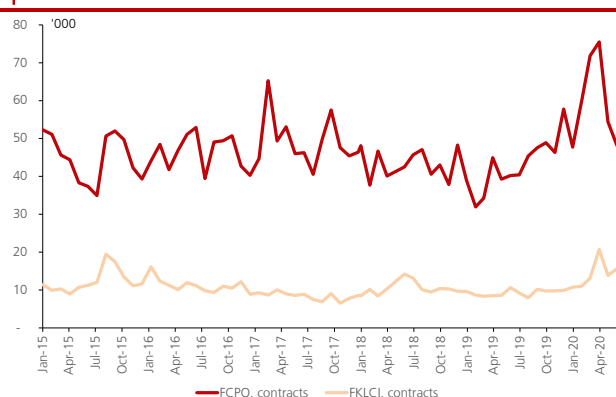
Fig. 3: Higher retail participation implies stronger effective clearing fees



Source: CEIC, Bursa Malaysia, AllianceDBS

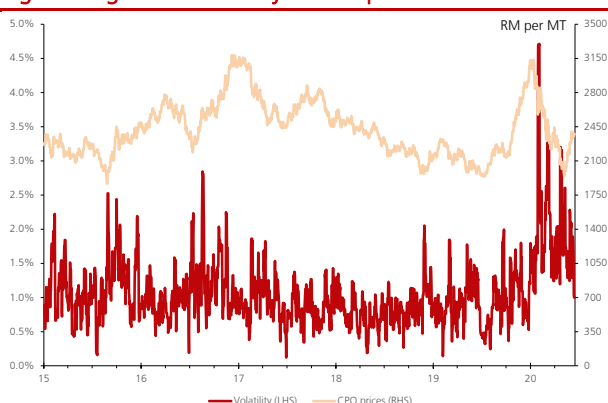
Derivatives again to be fuelled by CPO. Derivatives trading revenue should remain solid y-o-y in 2Q20 ahead of higher daily contracts traded in April and May (see Fig. 4). This is likely driven by the persistent volatility in crude oil prices (CPO) experienced year-to-date compared to 2019 (see Fig. 5), though on a q-o-q basis this is less so. CPO futures are still the predominant derivatives instrument traded on the bourse, at an average of 80% of contracts traded. In line with the resurgence in the equity market, the trading of KLCI futures has also seen an uptick on a y-o-y basis.

Fig. 4: Higher frequency of contracts traded y-o-y but not q-o-q



Source: Bursa Malaysia, AllianceDBS

Fig. 5: Heightened volatility in CPO prices



Source: Bloomberg Finance L.P., AllianceDBS

Reduce target price to RM6.00. Our FY20F earnings are raised by 34%, mainly on the back of the stronger 1H20 ADVAL and ADVOL expected as well as greater retail participation. That said, we are more measured in our earnings assumptions for FY21F and FY22F (+11%/+12%) premised on the view that the current level of trading activity is unlikely to extend past the end of the year. Most of the lift to our FY21-22F earnings is driven by higher retail participation expected as an extension of BURSA's current initiatives aimed at boosting retail trading. While the revised earnings are a positive, we lower our target price (TP) on the stock to RM6.00 after recalibrating our dividend discount model (DDM) assumptions – our cost of equity assumption is raised to 10% (from 8.1%) on the back of a higher beta assumed while long-term growth is revised to 5.3% (from 4.5%). Our dividend payout assumption remains the same at 90% while rolling over the valuation base to FY21F.

Positives priced in. The stock has staged a massive turnaround with its valuation rising to 27x forward PE from a March low of 15x, placing it at +1SD of its 10-year mean (see Fig. 6). This was likely driven by the trading activity experienced and strengthened sentiment in the bourse up till June. That said, we think most of the current exuberance has been priced in and valuations should ease as trading activity eventually moderates.

Fig. 6: Trading at the top end of valuations



Source: Bloomberg Finance L.P., AllianceDBS

CRITICAL DATA POINTS TO WATCH

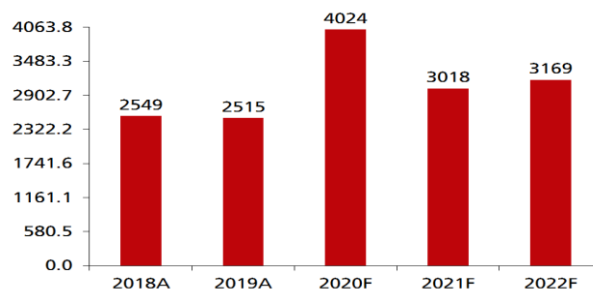
Revision in clearing fees. Generally, around 50% of BURSA's operating revenue is from securities trading, the bulk (80%) of which comprises clearing fees. BURSA currently imposes a maximum cap of RM1,000 on its clearing fees which typically benefits institutional investors due to their larger contract value. BURSA could lower clearing fees to promote retail participation while raising the RM1,000 cap to enhance revenue from institutional investors. A balancing act is required as higher transaction costs could reduce market participation (specifically from retail investors). A revision in these fees would improve margins, especially if the cap is removed.

Higher listing fees will boost earnings. Revenue from derivatives trading comprises sub-20% of BURSA's operating revenue, with CPO futures making up approximately 80% of the total derivative volume traded in the bourse. The remainder of BURSA's revenue is derived from other fee income such as listing fees, depository fees and revenue from information services. Although the timing of a revision of listing fees remains fluid, the exercise will boost BURSA's earnings in the long run as initial listing fees are amortised over five years.

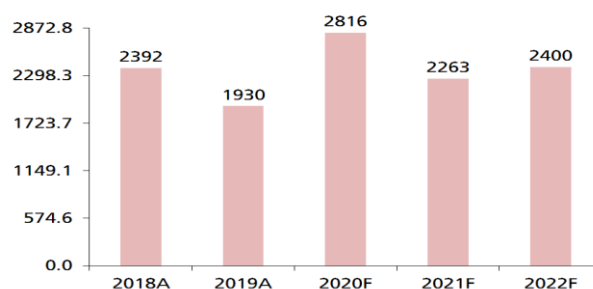
Further enhancing retail participation. BURSA could offer incentives to encourage companies to voluntarily raise their free floats. For instance, by offering incentives for share splits and increasing minimum free float requirements, trading liquidity can be enhanced and BURSA will benefit from a broader and deeper securities market. In addition, the government has initiated the Mid and Small Cap Research Scheme (MidS), a two-year programme to enhance value discovery and tradability of under-researched stocks. This is to educate and create awareness of an added pool of investible stocks listed on BURSA. The government has also imputed stamp duty exemptions on mid-cap stock trading to spur trading activity.

Proxy to Islamic banking growth. Transactions on BURSA's commodity trading platform Bursa Suq Al-Sila (BSAS) are expected to increase in conjunction with Islamic financing growth. BSAS' global accreditation implies not just domestic growth, but also potential global growth in Islamic financing.

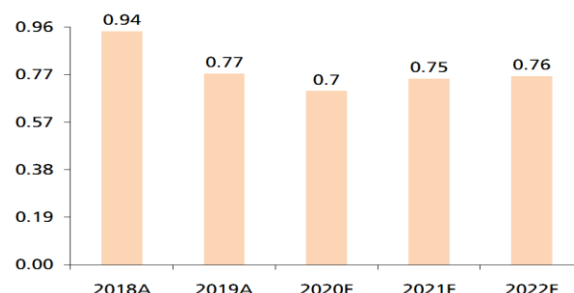
Average Daily Volume (m)



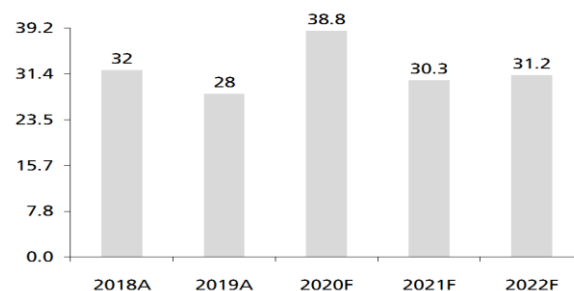
Average Daily Value (RMm)



Average Value/Volume



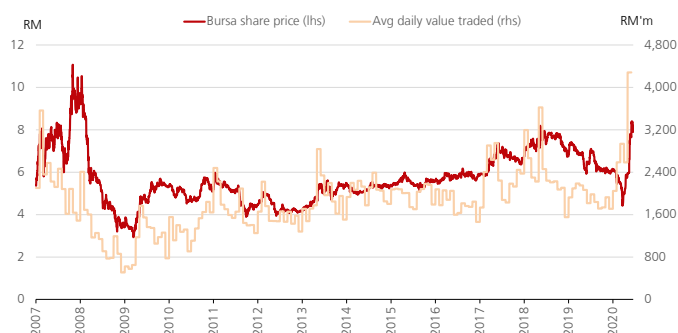
Velocity (%)



Source: Company, AllianceDBS

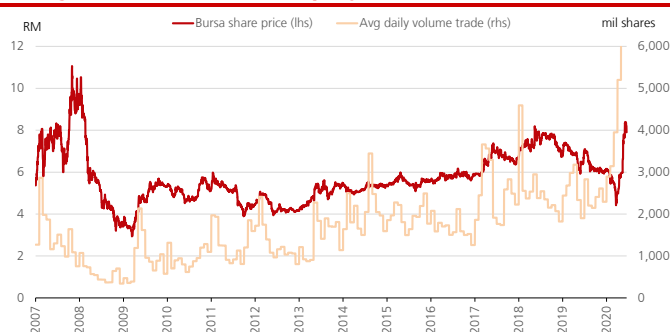
Appendix 1: A look at Company's listed history – what drives its share price?

Average value traded in equity market as critical factor



Source: Bloomberg Finance L.P, Department of Statistics

Average volume traded in equity market as critical factor



Source: Bloomberg Finance L.P, Bank Negara

Remarks

The average daily value traded in the equity market correlates positively with BURSA's share price with a correlation coefficient of 0.54. Higher value traded directly contributes to BURSA's top line revenue growth.

Similarly, the average volume traded in the equity market demonstrates a positive correlation with BURSA's share price, with securities trading making up c.50% of BURSA's revenue.

Bursa Malaysia

Balance Sheet:

Net cash position. BURSA's net cash position is largely supported by its highly cash-generative business as an exchange operator. We do not foresee a change in this position even with fairly high capital expenditure (capex) expected over the next three years.

Lucrative dividend payout. BURSA has generously paid out more than 90% of its net profit historically. Special dividends were declared in 2013, 2014, 2017 and 2018. Given the group's capex plans over the next three years, we do not expect special dividends during this period.

Share Price Drivers:

Strong market volume and value a boon. BURSA is a good proxy to a sustained recovery in market volume and value. As long as the market is still flush with liquidity, greater market volatility on the back of a higher turnover rate is positive for BURSA's top line performance.

Key Risks:

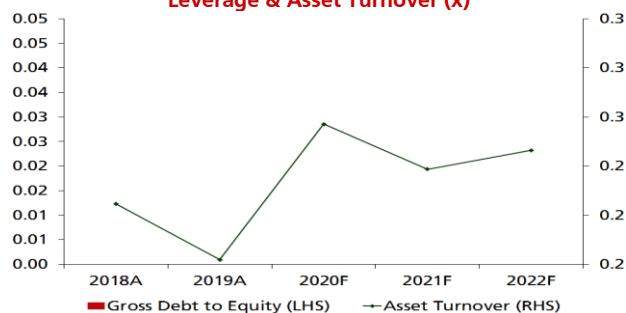
Sustainability of market liquidity. BURSA's earnings are reliant on market volume and capital market activities, which are sentiment driven and influenced by the direction of foreign fund flows. Negative market sentiment resulting in lower liquidity could dampen market volume and value. Our sensitivity analysis shows that every 5% decrease in average daily trading value assumption would lower FY20F net profit by c.4%.

Structural changes would take time to implement. Approval for the aforementioned measures is still fluid and implementation may take time.

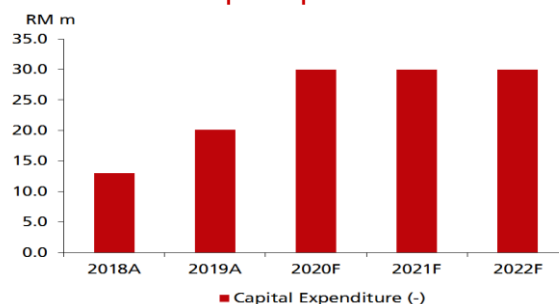
Company Background

Bursa Malaysia is an exchange holding company principally involved in treasury management and the provision of management services to its subsidiaries which operate the securities exchange, derivatives exchange and depository and clearing house in Malaysia.

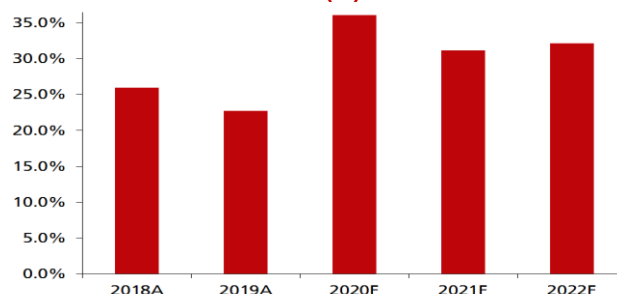
Leverage & Asset Turnover (x)



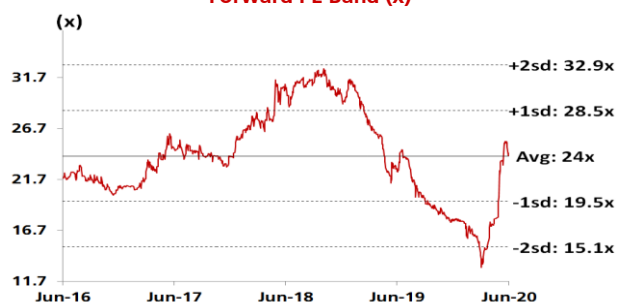
Capital Expenditure



ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, AllianceDBS

Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Average Daily Volume (m)	2,549	2,515	4,024	3,018	3,169
Average Daily Value	2,392	1,930	2,816	2,263	2,400
Average Value/Volume	0.94	0.77	0.70	0.75	0.76
Velocity (%)	32.0	28.0	38.8	30.3	31.2

Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenues (RMm)					
Equity	266	233	349	304	321
Derivatives	76.7	72.3	78.6	80.9	83.4
Stable revenue	175	170	168	175	181
Other operating revenue	5.53	5.02	5.27	5.54	5.81
Total	523	480	601	566	592

Income Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	523	480	601	566	592
Other Opng (Exp)/Inc	(215)	(224)	(228)	(233)	(238)
Operating Profit	309	256	373	333	355
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.5)	(0.5)	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	308	256	373	333	355
Tax	(77.6)	(66.2)	(93.2)	(83.3)	(88.6)
Minority Interest	(6.6)	(3.7)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	224	186	280	250	266
Net Profit before Except.	224	186	280	250	266
EBITDA	331	277	397	357	379
Growth					
Revenue Gth (%)	0.2	(8.2)	25.1	(5.8)	4.7
EBITDA Gth (%)	0.1	(16.2)	43.2	(9.9)	6.2
Opg Profit Gth (%)	0.7	(17.0)	45.5	(10.7)	6.5
Net Profit Gth (Pre-ex) (%)	0.4	(17.0)	50.5	(10.7)	6.5
Margins & Ratio					
Opg Profit Margin (%)	59.0	53.4	62.1	58.9	59.9
Net Profit Margin (%)	42.8	38.7	46.5	44.2	44.9
ROAE (%)	26.0	22.7	36.1	31.2	32.2
ROA (%)	9.6	7.8	12.0	10.5	11.1
ROCE (%)	25.5	22.2	34.8	30.1	31.0
Div Payout Ratio (%)	121.1	90.5	90.0	90.0	90.0
Net Interest Cover (x)	578.1	480.0	NM	NM	NM

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Revenue	121	119	117	123	146
Other Oper. (Exp)/Inc	(55.4)	(53.9)	(51.1)	(59.3)	(56.9)
Operating Profit	66.1	64.7	66.4	63.4	88.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	65.9	64.5	66.3	63.3	88.6
Tax	(16.2)	(15.9)	(16.4)	(17.7)	(22.4)
Minority Interest	(1.4)	(1.1)	(1.3)	0.0	0.0
Net Profit	48.4	47.6	48.6	45.5	66.2
Net profit bef Except.	48.4	47.6	48.6	45.5	66.2
EBITDA	66.1	64.7	66.4	63.4	88.7

Growth

Revenue Gth (%)	0.3	(2.4)	(0.9)	4.4	18.6
EBITDA Gth (%)	(6.4)	(2.1)	2.7	(4.5)	39.9
Opg Profit Gth (%)	(6.4)	(2.1)	2.7	(4.5)	39.9
Net Profit Gth (Pre-ex) (%)	(4.3)	(1.7)	2.0	(6.2)	45.3

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	54.4	54.5	56.5	51.7	60.9
Net Profit Margins (%)	39.9	40.1	41.3	37.1	45.5

Balance Sheet (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	212	215	221	227	232
Invt in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	399	252	252	252	252
Cash & ST Invt	1,764	1,787	1,801	1,832	1,858
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	38.6	42.3	52.9	49.8	52.1
Other Current Assets	21.5	25.0	25.0	25.0	25.0
Total Assets	2,435	2,321	2,352	2,385	2,419
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	1,376	1,396	1,399	1,407	1,415
Other Current Liab	141	135	135	135	135
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	29.7	29.5	29.5	29.5	29.5
Shareholder's Equity	875	761	789	814	840
Minority Interests	12.3	0.0	0.0	0.0	0.0
Total Cap. & Liab.	2,435	2,321	2,352	2,385	2,419
Non-Cash Wkg. Capital	(1,457)	(1,464)	(1,456)	(1,467)	(1,472)
Net Cash/(Debt)	1,764	1,787	1,801	1,832	1,858
Debtors Turn (avg days)	29.9	30.7	28.9	33.1	31.4
Creditors Turn (avg days)	(21,115.7)	(24,348.3)	(21,327.5)	(21,109.7)	(20,751.1)
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.2	0.2	0.3	0.2	0.2
Current Ratio (x)	1.2	1.2	1.2	1.2	1.2
Quick Ratio (x)	1.2	1.2	1.2	1.2	1.2
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	3.5	3.5	3.5	3.6	3.6

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	308	256	373	333	355
Dep. & Amort.	23.0	21.8	24.9	25.3	25.8
Tax Paid	(80.9)	(74.5)	(93.2)	(83.3)	(88.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(14.6)	(1.7)	(7.4)	11.1	5.00
Other Operating CF	(20.3)	(13.7)	0.0	0.0	0.0
Net Operating CF	215	188	297	286	297
Capital Exp.(net)	(13.0)	(20.1)	(30.0)	(30.0)	(30.0)
Other Invt.(net)	(56.7)	(31.4)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	56.8	60.2	0.0	0.0	0.0
Net Investing CF	(12.8)	8.70	(30.0)	(30.0)	(30.0)
Div Paid	(277)	(178)	(252)	(225)	(239)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(4.7)	0.0	0.0	0.0	0.0
Net Financing CF	(282)	(178)	(252)	(225)	(239)
Currency Adjustments	0.07	0.0	0.0	0.0	0.0
Chg in Cash	(79.2)	18.5	15.5	31.4	27.4
Opg CFPS (sen)	28.5	23.4	37.7	34.0	36.1
Free CFPS (sen)	25.1	20.7	33.1	31.7	33.0

Source: Company, AllianceDBS

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	23 Jul 19	6.98	7.00	HOLD
2:	02 Aug 19	6.50	6.70	HOLD
3:	18 Oct 19	6.19	6.40	HOLD
4:	30 Oct 19	5.95	6.40	HOLD
5:	31 Jan 20	5.55	6.30	BUY
6:	09 Apr 20	5.20	6.00	BUY
7:	04 May 20	5.95	6.40	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: CHIN Jin Han, CFA

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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