

# Malaysia Company Update Bursa Malaysia

Bloomberg: BURSA MK | Reuters: BMYS.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Oct 2020

## FULLY VALUED

Last Traded Price (27 Oct 2020): RM8.52 (KLCI : 1,500.35)  
Price Target 12-mth: RM7.35 (14% downside) (Prev RM7.35)

### Analyst

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### What's New

- 9M20 earnings in line with expectations
- 3Q20 performance underpinned by historic highs in equity trading activity and velocity, unlikely to be replicated going forward
- Steady state trading activity only to emerge in 2021 given themes still present in 4Q20
- Maintain FULLY VALUED with RM7.35 TP

### Price Relative



### Forecasts and Valuation

FY Dec (RMm)	2019A	2020F	2021F	2022F
Revenue	480	707	640	650
EBITDA	277	503	432	437
Pre-tax Profit	256	479	407	412
Net Profit	186	359	306	309
Net Pft (Pre Ex.)	186	359	306	309
Net Pft Gth (Pre-ex) (%)	(17.0)	93.2	(14.9)	1.2
EPS (sen)	23.0	44.4	37.8	38.3
EPS Pre Ex. (sen)	23.0	44.4	37.8	38.3
EPS Gth Pre Ex (%)	(17)	93	(15)	1
Diluted EPS (sen)	23.0	44.4	37.8	38.2
Net DPS (sen)	20.8	40.0	34.0	35.0
BV Per Share (sen)	94.1	98.5	102	106
PE (X)	37.1	19.2	22.5	22.3
PE Pre Ex. (X)	37.1	19.2	22.5	22.3
P/Cash Flow (X)	36.7	18.8	20.0	20.2
EV/EBITDA (X)	18.4	10.1	11.7	11.5
Net Div Yield (%)	2.4	4.7	4.0	4.1
P/Book Value (X)	9.1	8.6	8.3	8.1
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.7	46.1	37.6	36.8
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		37.4	31.4	30.5
Other Broker Recs:		B: 6	S: 5	H: 6

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

## Peak has been reached

### Investment Thesis

**Earnings have peaked.** Bursa Malaysia (BURSA) has enjoyed an unprecedented earnings run due to historic highs in equity trading activity arising from the COVID-19 pandemic and a moratorium-induced liquidity boost. As liquidity tightens and conditions normalise, expect earnings to fall in 2021.

**Re-rating catalyst unlikely to materialise in the near term.** A major re-rating catalyst for the stock is a review of the bourse's current fee structures, which have not changed since 2008. However, the current environment indicates a re-visit is not within the bourse's near-term plans.

**Rich valuations.** The stock is still trading at close to 1SD of its 5-year mean, a rich valuation considering earnings are expected to contract over the next year. The current stock price seems to imply existing trading conditions will remain buoyant in FY21.

### Valuation:

**FULLY VALUED, RM7.35 TP.** Our dividend discount model-derived target price (TP) assumes a 90% payout, 10% cost of equity and 5% long-term growth.

### Where we differ:

**Price assumes optimistic trading values.** We think that the optimism on BURSA's stock price has remained exuberant even with a double-digit share price contraction from the August highs, and should normalise further in line with earnings over the next year.

### 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 FY21F net profit by 5%.

### At A Glance

Issued Capital (m shrs)	809
Mkt. Cap (RMm/US\$m)	6,893 / 1,656
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)	8.0
GIC Industry : Financial / Diversified Financials	



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## WHAT'S NEW

### 3Q20 results review

**9M20 earnings were within our expectations.** As expected, Bursa Malaysia's (BURSA) 3Q20 earnings reached an all-time high of RM121.9m, representing a significant 159% y-o-y increase (+41% q-o-q). This brings 9M20 earnings to RM273m, 76% of our FY20F estimate and 86% of the consensus'. Revenue saw a 99% y-o-y lift (+33% q-o-q), arising from heightened trading activity during the quarter. This also skewed reported cost-to-income levels downwards to 31% from 47% a year ago, even with a 27% increase in overheads, most of which came from personnel costs.

**Dominated by equity trading.** Equity trading revenue accounted for the lion's share (more than 90%) of revenue growth after expanding by 188% y-o-y (+46% q-o-q). Average daily value traded (ADVAL) excluding direct business transactions in 3Q20 more than tripled y-o-y to RM5.7bn at a reported velocity of 85% (3Q19: 27%), which was also underpinned by fairly static market capitalisation levels. Meanwhile, average daily volume traded (ADVOL) more than quadrupled y-o-y to 10.3bn. Surprisingly though, effective clearing fees rose marginally to 2.52bps from 2.49bps, lower than 2Q20's 2.68bps. This was in spite of significantly higher retail participation rates (reported rates were 37% in 9M20 compared to 33% in 6M20).

**CPO price volatility helped drive revenue.** BURSA's derivatives trading revenue grew by 15% y-o-y (flat q-o-q), underpinned by more active trading of crude palm oil futures (FCPO). Average daily number of contracts traded increased by 17% y-o-y (+2% q-o-q). FCPO contracts traded during the quarter increased by 19% y-o-y, translating to an average daily volume of 55k contracts or a 17% increase y-o-y. Meanwhile, KLCI Futures (FKLI) trading volume grew by 51% y-o-y (-4% q-o-q), amounting to a 49% rise in average daily volume over the same period (-8% q-o-q).

**Comparatively modest growth in stable revenue sources.** Besides market-based revenue, BURSA's stable revenue sources also recorded respectable growth of 18% y-o-y (+16% q-o-q). Depository services improved at a 28% y-o-y clip due to an increase in central depository system (CDS) accounts. Market data revenue saw a 37% y-o-y uplift (+2% q-o-q) owing to a higher number of subscriptions.

Separately, listing revenue growth was less impactful at 11% y-o-y but saw better sequential growth of 38% due to six new listings recorded during the quarter. With the listing of Mr DIY and a handful of other smaller companies on the bourse, we expect further improvement in listing revenue in 4Q20, though at more measured levels as they are amortised over time.

**Moderation in trading activity to flow to bottom line.** ADVAL and ADVOL levels have moderated since 3Q20 as the automatic six-month loan moratorium on retail loans (ex-credit cards) ended, which should trickle into BURSA's earnings for 4Q20. That said, levels are still elevated – month-to-date ADVAL and ADVOL were RM4.4bn and 6.9bn respectively. Trading activity is expected to remain volatile in 4Q20 ahead of event-driven themes like on-going political instability, the upcoming Budget 2021 (slated to be tabled to Parliament on 6 November), US elections and COVID-19 related news. We believe a more sustained level of trading would only emerge in 2021 when some of these concerns abate.

**Maintain FULLY VALUED with RM7.35 TP.** Considering an expected normalisation in earnings from here on out, BURSA continues to trade at a premium level of 22x forward EPS, above its five-year mean of 20.9x. Its current share price implies that the current level of trading activity is permanent, with a minor reduction in ADVAL – we estimate a reduction of around 6% from our current FY20F estimate of RM3.8bn.

### 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.

## Quarterly / Interim Income Statement (RMm)

FY Dec	3Q2019	2Q2020	3Q2020	% chg yoy	% chg qoq
Revenue	117	175	233	98.6	33.1
Other Oper. (Exp)/Inc	(51.1)	(57.0)	(66.7)	30.5	17.0
<b>Operating Profit</b>	<b>66.4</b>	<b>118</b>	<b>167</b>	<b>150.9</b>	<b>40.9</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(0.1)	(0.1)	(0.1)	(2.2)	(2.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>66.3</b>	<b>118</b>	<b>166</b>	<b>151.2</b>	<b>40.9</b>
Tax	(16.4)	(29.8)	(42.4)	157.9	42.1
Minority Interest	(1.3)	0.0	0.0	nm	nm
<b>Net Profit</b>	<b>48.6</b>	<b>88.3</b>	<b>124</b>	<b>155.6</b>	<b>40.6</b>
Net profit bef Except.	48.6	88.3	124	155.6	40.6
EBITDA	66.4	118	167	150.9	40.9
<b>Market statistics</b>					
Securities volume (bn)	2.4	6.6	10.3	328.5	56.4
Securities value (RM bn)	1.9	3.8	5.7	208.1	52.1
Derivatives volume (000)	58.8	67.7	69.4	18.1	2.4
Velocity (%)	27	62	85		

## Historical PE bands



Source: Bloomberg Finance L.P., AllianceDBS estimates



Source: Bloomberg Finance L.P., AllianceDBS estimates

## Key Assumptions

FY Dec	2018A	2019A	2020F	2021F	2022F
Average Daily Volume (m)	2,549	2,515	6,211	4,659	4,565
Average Daily Value	2,392	1,930	3,789	2,935	2,922
Average Value/Volume	0.94	0.77	0.61	0.63	0.64
Velocity (%)	32.0	28.0	54.9	42.1	41.5

## Segmental Breakdown

FY Dec	2018A	2019A	2020F	2021F	2022F
<b>Revenues (RMm)</b>					
Equity	266	233	451	379	379
Derivatives	76.7	72.3	81.9	80.9	83.3
Stable revenue	175	170	168	175	181
Other operating revenue	5.53	5.02	5.27	5.54	5.81
<b>Total</b>	<b>523</b>	<b>480</b>	<b>707</b>	<b>640</b>	<b>650</b>

## Income Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Revenue	523	480	707	640	650
Other Opng (Exp)/Inc	(215)	(224)	(228)	(233)	(238)
<b>Operating Profit</b>	<b>309</b>	<b>256</b>	<b>479</b>	<b>407</b>	<b>412</b>
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	(0.5)	(0.5)	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>308</b>	<b>256</b>	<b>479</b>	<b>407</b>	<b>412</b>
Tax	(77.6)	(66.2)	(120)	(102)	(103)
Minority Interest	(6.6)	(3.7)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>224</b>	<b>186</b>	<b>359</b>	<b>306</b>	<b>309</b>
Net Profit before Except.	224	186	359	306	309
EBITDA	331	277	503	432	437
<b>Growth</b>					
Revenue Gth (%)	0.2	(8.2)	47.2	(9.4)	1.5
EBITDA Gth (%)	0.1	(16.2)	81.4	(14.1)	1.3
Opg Profit Gth (%)	0.7	(17.0)	86.8	(14.9)	1.2
Net Profit Gth (Pre-ex) (%)	0.4	(17.0)	93.2	(14.9)	1.2
<b>Margins &amp; Ratio</b>					
Opg Profit Margin (%)	59.0	53.4	67.8	63.7	63.4
Net Profit Margin (%)	42.8	38.7	50.8	47.7	47.6
ROAE (%)	26.0	22.7	46.1	37.6	36.8
ROA (%)	9.6	7.8	15.3	12.8	12.8
ROCE (%)	25.5	22.2	44.4	36.3	35.6
Div Payout Ratio (%)	121.1	90.5	90.1	89.9	91.5
Net Interest Cover (x)	578.1	480.0	NM	NM	NM

Source: Company, AllianceDBS

**Quarterly Income Statement (RMm)**

<b>FY Dec</b>	<b>3Q2019</b>	<b>4Q2019</b>	<b>1Q2020</b>	<b>2Q2020</b>	<b>3Q2020</b>
Revenue	117	123	146	175	233
Other Oper. (Exp)/Inc	(51.1)	(59.3)	(56.9)	(57.0)	(66.7)
<b>Operating Profit</b>	<b>66.4</b>	<b>63.4</b>	<b>88.7</b>	<b>118</b>	<b>167</b>
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
<b>Pre-tax Profit</b>	<b>66.3</b>	<b>63.3</b>	<b>88.6</b>	<b>118</b>	<b>166</b>
Tax	(16.4)	(17.7)	(22.4)	(29.8)	(42.4)
Minority Interest	(1.3)	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>48.6</b>	<b>45.5</b>	<b>66.2</b>	<b>88.3</b>	<b>124</b>
Net profit bef Except.	48.6	45.5	66.2	88.3	124
EBITDA	66.4	63.4	88.7	118	167

**Growth**

Revenue Gth (%)	(0.9)	4.4	18.6	20.4	33.1
EBITDA Gth (%)	2.7	(4.5)	39.9	33.3	40.9
Opg Profit Gth (%)	2.7	(4.5)	39.9	33.3	40.9
Net Profit Gth (Pre-ex) (%)	2.0	(6.2)	45.3	33.5	40.6

**Margins**

Opg Profit Margins (%)	56.5	51.7	60.9	67.5	71.4
Net Profit Margins (%)	41.3	37.1	45.5	50.4	53.2

**Balance Sheet (RMm)**

<b>FY Dec</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
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	1,800	1,839	1,866
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	38.6	42.3	62.2	56.3	57.2
Other Current Assets	21.5	25.0	25.0	25.0	25.0
<b>Total Assets</b>	<b>2,435</b>	<b>2,321</b>	<b>2,360</b>	<b>2,399</b>	<b>2,432</b>
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	796	827	854
Minority Interests	12.3	0.0	0.0	0.0	0.0
<b>Total Cap. &amp; Liab.</b>	<b>2,435</b>	<b>2,321</b>	<b>2,360</b>	<b>2,399</b>	<b>2,432</b>
Non-Cash Wkg. Capital	(1,457)	(1,464)	(1,447)	(1,461)	(1,467)
Net Cash/(Debt)	1,764	1,787	1,800	1,839	1,866
Debtors Turn (avg days)	29.9	30.7	27.0	33.8	31.9
Creditors Turn (avg days)	Nm	Nm	Nm	Nm	Nm
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.2	0.2	0.3	0.3	0.3
Current Ratio (x)	1.2	1.2	1.2	1.2	1.3
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)	3.7	3.6	3.9	3.8	3.9

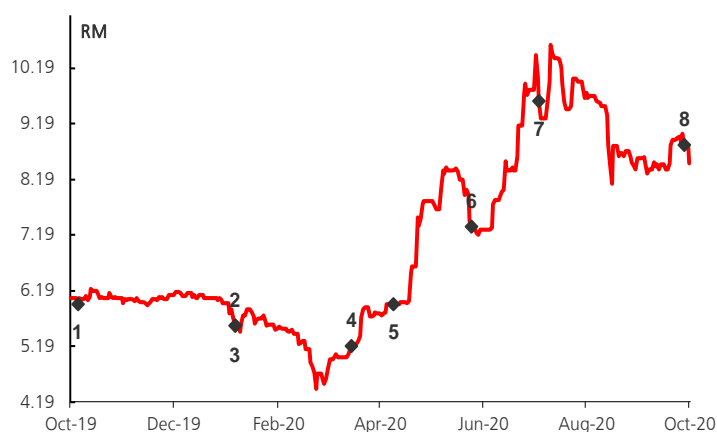
Source: Company, AllianceDBS

## Cash Flow Statement (RMm)

FY Dec	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	308	256	479	407	412
Dep. & Amort.	23.0	21.8	24.9	25.3	25.8
Tax Paid	(80.9)	(74.5)	(120)	(102)	(103)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(14.6)	(1.7)	(16.7)	13.9	6.47
Other Operating CF	(20.3)	(13.7)	0.0	0.0	0.0
<b>Net Operating CF</b>	<b>215</b>	<b>188</b>	<b>367</b>	<b>345</b>	<b>342</b>
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
<b>Net Investing CF</b>	<b>(12.8)</b>	<b>8.70</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>
Div Paid	(277)	(178)	(323)	(275)	(283)
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
<b>Net Financing CF</b>	<b>(282)</b>	<b>(178)</b>	<b>(323)</b>	<b>(275)</b>	<b>(283)</b>
Currency Adjustments	0.07	0.0	0.0	0.0	0.0
Chg in Cash	(79.2)	18.5	14.0	39.9	28.6
Opg CFPS (sen)	28.5	23.4	47.5	40.9	41.4
Free CFPS (sen)	25.1	20.7	41.7	38.9	38.5

Source: Company, AllianceDBS

## Target Price &amp; Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	30 Oct 19	5.95	6.40	HOLD
2:	31 Jan 20	5.55	6.30	BUY
3:	31 Jan 20	5.55	6.30	BUY
4:	09 Apr 20	5.20	6.00	BUY
5:	04 May 20	5.95	6.40	HOLD
6:	19 Jun 20	7.34	6.00	FULLY VALUED
7:	29 Jul 20	9.60	6.60	FULLY VALUED
8:	23 Oct 20	8.80	7.35	FULLY VALUED

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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