

31 July 2018 | 2QFY18 Results Review

Bursa Malaysia Berhad

Within estimates

Maintain NEUTRAL
Unchanged Target Price (TP): RM7.57

INVESTMENT HIGHLIGHTS

- Bursa recorded steady quarterly earnings at RM58.2m
- 1HFY18 ADTV surged by +10.6%yoy
- Cost-to-income ratio registered flat
- We make no changes to our FY18 and FY19 forecasts, as earnings were in-line with expectation
- We maintain our NEUTRAL call with an unchanged TP of RM7.57

2QFY18 earnings within estimates. Bursa's earnings in 2QFY18 came in strong at RM58.2m. Despite inching down by -2.2%yoy, the earnings in 2QFY18 displayed a stable trend to meet our FY18 forecasts. Cumulatively, 1HFY18 accounted for 51.4% and 50.8% of ours and consensus expectations. This was underpinned by robust trading activities in the quarter, with ADTV closing at RM2.7b. Recall that ADTV in 1HFY18 has increased by +10.7%yoy in comparison to last year. This has led to higher overall operating revenue at +3.6%yoy to RM279.1m. It is worth noting that this was Bursa Malaysia's highest half year operating revenue since its listing in 2005.

Securities trading revenue climbed higher. It moved up by +5.6%yoy to RM146.5m in 1HFY18. We attributed the growth to higher ADTV recorded in the previous two quarters, underpinned by higher foreign trades. ADTV registered at RM2.7b in 1HFY18, growing by +10.8%yoy. The month of May saw the highest ADTV closed at RM3.6b, an increase of +22.9%yoy. The subsequent month of June saw ADTV eased, with the average closing below its quarterly mean at RM2.5b. However, ADTV in June still posted solid growth, climbing by +9.5%yoy.

Derivatives trading activities slightly down. In 2QFY18, the segment registered -3.7%yoy lower number of average daily contracts (ADC) traded at 56,000. Accordingly, this had led to an ADC fall by -8.4%yoy in 1HFY18 in comparison to the same period last year. While the trend of derivatives trading revenue was seen flat in 1HFY18, we noted that the 2QFY18's recorded marginal growth of +1.5%yoy. We believe this was underpinned by strong improvement in FKLII contracts traded, which grew by +38.7%yoy. Recall that FKLII contracts command higher trade fee than FCPO.


RETURN STATS	
Price (30 July 2018)	RM7.81
Target Price	RM7.57
Expected Share Price Return	-3.1%
Expected Dividend Yield	+3.6%
Expected Total Return	+0.5%

STOCK INFO	
KLCI	1,769.14
Bursa / Bloomberg	1818 / Bursa MK
Board / Sector	Main / Finance
Syariah Compliant	No
Issued shares (mil)	RM807.5mil
Market cap. (RM'm)	RM6,306.4m
Price over NA	8.44x
52-wk price Range	RM6.31-RM8.20
Beta (against KLCI)	0.88x
3-mth Avg Daily Vol	1.48m
3-mth Avg Daily Value	RM11.47m
Major Shareholders (%)	
Capital Market Dvlp	18.61
KWAP	13.57
EPF	7.02

Abbreviations used:
 ADV = Average Daily Value
 ADC = Average Daily Contract
 FCPO = Crude Palm Oil Futures
 FKLII = FBMKLCI Futures
 BSAS = Bursa Suq Al-Sila
 OMT = On Market Trade
 DBT = Direct Business Transaction
 SR = Stable Revenue

Cost to income ratio improved in 1HFY18. Operating expenses recorded slight improvement, inching down by -1.2%yoy to RM123.4m. Total opex was down due to lower expenses in Globex fees (following lower number of derivatives contracts traded) and lower depreciation as some IT assets were fully depreciated. Accordingly, this has contracted the overall opex in 1HFY18 to record a cost to income ratio of 42.0%. The CTI ratio was higher in FY17 at 45.0%.

14sen dividend declared. The management declared a first interim dividend of 14.0 sen per share and a special dividend of 8.0 sen per share. The interim dividend represents 92.7% of total profits in 1HFY18.

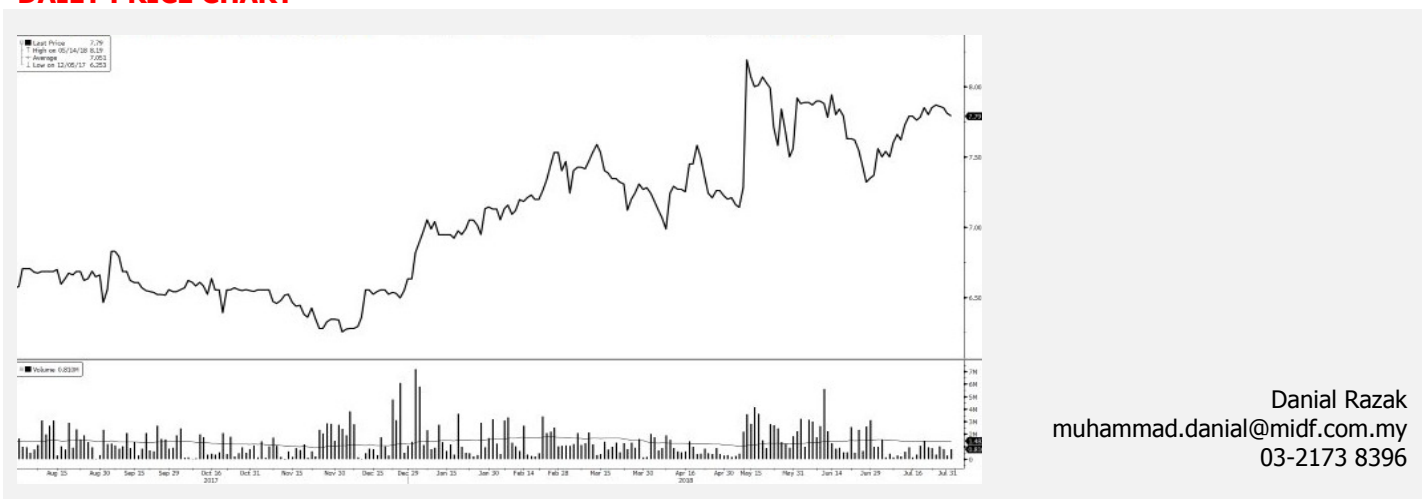
Valuation. Given that earnings came in line with our expectations, we maintain our earnings forecasts for FY18 and FY19. Correspondingly, we maintain our **NEUTRAL** stance on Bursa with an adjusted **TP** of **RM7.57**. The unchanged TP is based on FY19EPS of 29.8sen pegged to PER of 25x. Accordingly, we estimate ADTV to average at RM2.52b and RM2.66b, in FY18 and FY19 respectively. We believe the market environment in FY19 should encourage more trading activities, provided that more clarity is available, in terms of major economic direction by the new government. However, we believe that this have been factored in by investors. In addition, there is a possible downside risk stemming from external sector namely the US-China trade spat. 

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	518.5	506.8	556.8	578.8	603.7
EBITDA (RM'm)	302.5	294.8	329.7	355.6	373.2
Pre-tax Profit (RM'm)	278.8	270.6	305.9	327.2	346.5
PATAMI (RM'm)	198.6	193.6	223.0	237.5	240.0
<i>Vs. Consensus Estimate (RM'm)</i>	-	-		240.8	247.8
EPS (sen)	24.6	24.0	27.7	29.5	29.8
EPS growth (%)	-33.5	-2.5	15.2	6.5	1.1
PER (x)	31.7	32.5	28.2	26.5	26.2
Dividend (sen)	28.2	29.9	26.1	28.0	28.3
Dividend Yield (%)	3.6	3.8	3.3	3.6	3.6

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

2QFY18 RESULTS SUMMARY

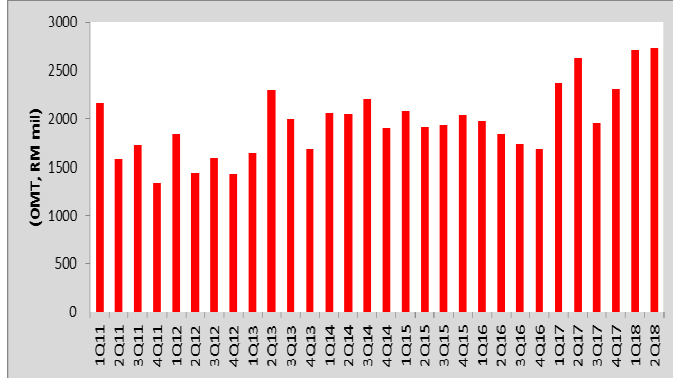
FYE Dec (RM'm)	2Q18	2Q17	1Q18	YoY Chg	QoQ Chg	6M18	6M17	YoY Chg
Operating revenue	134.3	134.8	144.8	-0.4%	-7.3%	279.1	269.4	3.6%
Other income	6.3	7.9	5.9	-20.4%	7.3%	12.2	15.9	-23.5%
Total revenue	140.6	142.7	150.7	-1.5%	-6.7%	291.3	285.4	2.1%
Staff costs	-36.2	-34.5	-34.8	4.9%	4.0%	-71.0	-68.5	3.7%
Depreciation and amortisation	-5.5	-6.0	-5.6	-8.8%	-1.5%	-11.0	-12.1	-8.6%
Other operating expenses	-18.9	-20.6	-22.6	-8.4%	-16.3%	-41.4	-44.4	-6.6%
EBITDA	85.4	87.5	93.2	-2.4%	-8.4%	178.6	172.3	3.7%
Pre-tax profit	79.9	81.5	87.7	-1.9%	-8.9%	167.6	160.2	4.6%
Taxation	-20.0	-20.5	-22.0	-2.4%	-8.9%	-42.0	-40.4	4.2%
Minority interest	-1.6	-1.4	-1.9	18.2%	-12.5%	-3.5	-3.6	-3.6%
PATAMI	58.2	59.5	63.8	-2.2%	-8.7%	122.0	116.2	5.0%
EPS (sen)	7.2	7.4	7.9	-2.7%	-8.9%	15.1	14.4	4.9%
Key Matric	2Q18	2Q17	1Q18	+/- ppts	+/- ppts	6M18	6M17	+/- ppts
Cost-to-income ratio	43.1%	42.8%	41.7%	0.2	1.3	42.4%	43.8%	-1.4
EBITDA margin	60.7%	61.3%	61.9%	-0.6	-1.1	61.3%	60.4%	1.0
PATAMI margin	41.4%	41.7%	42.3%	-0.3	-0.9	41.9%	40.7%	1.2
Effective tax rate	25.1%	25.2%	25.1%	-0.1	0.0	25.1%	25.2%	-0.1

Segments breakdown								
Operating revenue	2Q18	2Q17	1Q18	YoY Chg	QoQ Chg	6M18	6M17	YoY Chg
Securities trading revenue	70.3	71.6	76.3	-1.8%	-7.9%	146.5	138.8	5.6%
Derivatives trading revenue	19.7	19.5	19.0	1.5%	4.0%	38.7	40.7	-4.8%
Bursa Suq Al-Sila (BSAS)	3.5	3.8	4.0	-9.5%	-13.0%	7.4	7.8	-4.6%
Listing and issuer services	15.3	15.6	15.7	-1.9%	-2.5%	31.0	28.3	9.3%
Depository services	10.8	10.5	10.5	2.7%	3.1%	21.3	20.3	4.9%
Market data	8.9	8.5	8.5	5.0%	5.8%	17.4	17.1	1.8%
Member services and connectivity	5.7	5.3	5.5	9.0%	5.1%	11.2	10.4	7.1%
Other	0.0	0.0	5.5	NA	NA	5.5	6.0	-7.9%

Source: Bloomberg, MIDFR

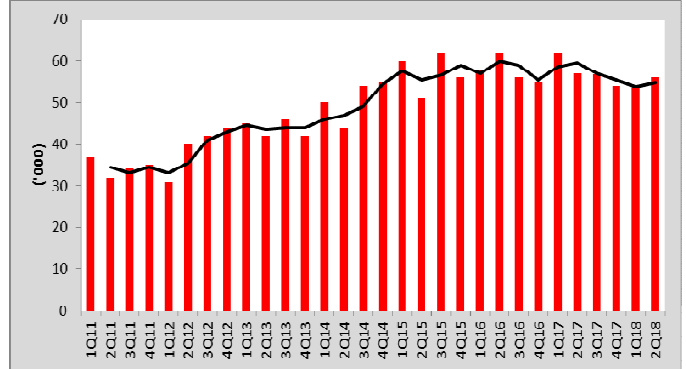
APPENDICES

Figure 1: Securities Market Trading Activity



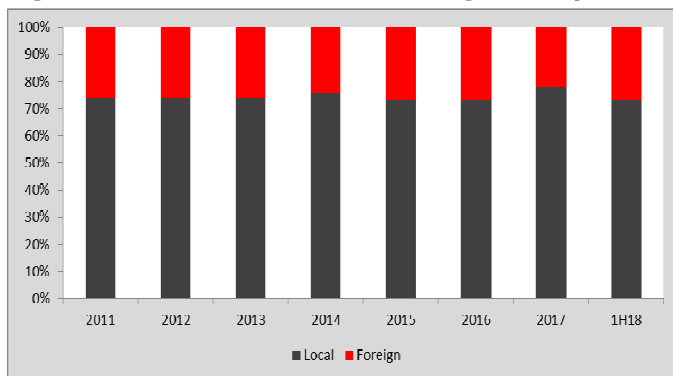
Source: Bloomberg, MIDFR

Figure 2: Average Daily Contracts Traded



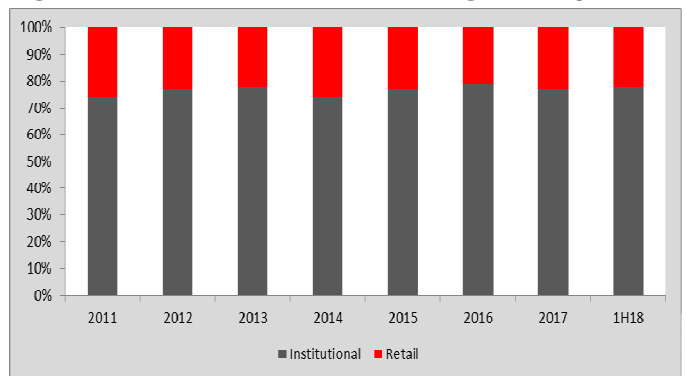
Source: Bloomberg, MIDFR

Figure 3: Securities Market Trading Participation



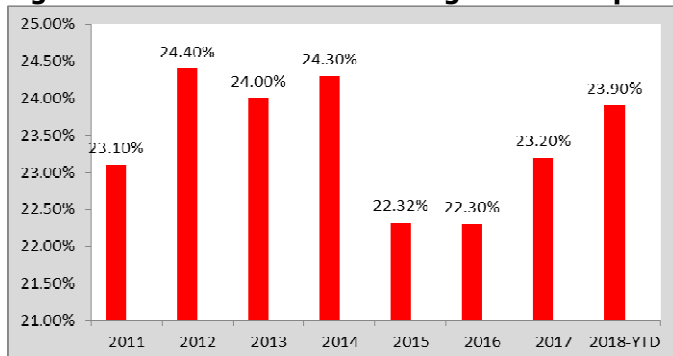
Source: Bloomberg, MIDFR

Figure 4: Securities Market Trading Participation



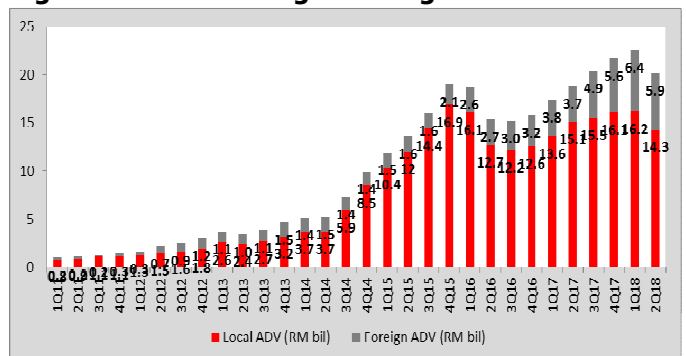
Source: Bloomberg, MIDFR

Figure 5: Securities Market Foreign Ownership



Source: Bloomberg, MIDFR

Figure 6: BSAS Average Trading Value



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.