

22 December 2014 | Visit Note

Bursa Malaysia Berhad

Derivative transactions to thrive on market volatility

Maintain BUY

Revised Target Price (TP) : RM8.84
(previously RM9.38)

INVESTMENT HIGHLIGHTS

- We expect stronger trading activities in derivatives, mainly FCPO and FKLI, riding on higher market volatility.
- However, we anticipate some challenges on Bursa's securities trading revenue in FY15. This is due to cautious investors' sentiment in the near term as a result of global economic uncertainties.
- On the other hand, impending listings of initial public offerings (IPOs) in FY15 are likely to support trading activities in the local bourse.
- Hence, we project a drop of 5.0% on-year in the average daily value (ADV) traded for equities to RM1.96b in FY15.
- We forecast a modest growth in earnings by 4.0%yoy to RM199.9m in FY15.
- **Maintain BUY with a revised TP of RM8.84 based on FY15F EPS of 37.5sen pegged to its historical 5-year average PER of 23.6x.**

Number of derivatives contracts traded in FY15 likely to be higher with market continuing to be volatile. For 9MFY14, the average daily contracts (ADC) for both FKLI and FCPO have grown strongly by 10.7%yoy. This has been contributed largely by higher ADC for FCPO. Moving forward, we expect market uncertainties to ensue and this will benefit trading activities for derivatives. We anticipate the ADC for FKLI and FCPO to rise by 6.0%yoy to 52,500 contracts in FY15.

Impending listings of IPOs to support securities trading activities... The potential listings of 1MDB, Iskandar Waterfront, Sunway Construction, Westar Aviation and Malakoff IPOs will be positive in supporting Bursa's securities trading revenue in FY15.

...but some challenges remain. The securities market ADV traded (OMT) declined to RM1.94b pursuant to the December market selloff which was precipitated by slumping crude oil price after OPEC decided not to cut its production. This compares to RM2.1b for 9M14. While the decline was not very substantial, however, we still expect some challenges in the securities market in FY15. Firstly, cautious investor sentiment from lower crude oil prices and economic uncertainties. Secondly, the implementation of GST in 2Q15 which may impact retail securities trades in the short term. Hence, we project a drop of 5.0%yoy in ADV traded for securities market to RM1.96b in FY15.

| RETURN STATS | |
|------------------------------|---------------|
| Price (19 December 2014) | RM8.00 |
| Target Price | RM8.84 |
| Expected Share Price Return | +10.5% |
| Expected Dividend Yield | +4.5% |
| Expected Total Return | +15.0% |

| STOCK INFO | |
|-------------------------|-----------------|
| KLCI | 1,715.99 |
| Bursa / Bloomberg | 1818 / BURSA MK |
| Board / Sector | Main / Finance |
| Syariah Compliant | No |
| Issued shares (mil) | 533.5 |
| Par Value (RM) | 0.50 |
| Market cap. (RM'm) | 4,268.16 |
| Price over NA | 6.3x |
| 52-wk price Range | RM7.21–RM8.22 |
| Beta (against KLCI) | 1.02 |
| 3-mth Avg Daily Vol | 0.47m |
| 3-mth Avg Daily Value | RM3.78m |
| Major Shareholders | |
| Capital Market Dev Fund | 18.8% |
| Ministry of Finance | 16.2% |
| EPF | 5.8% |

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

INVESTMENT STATISTICS

| FYE Dec | FY13 | FY14F | FY15F | FY16F |
|--------------------------|-------|-------|-------|-------|
| Operating revenue (RMmn) | 439.8 | 466.3 | 494.5 | 524.9 |
| Other income (RMmn) | 35.2 | 35.6 | 36.1 | 37.0 |
| Total income (RMmn) | 474.9 | 501.9 | 530.6 | 561.9 |
| Pretax profit (RMmn) | 245.6 | 263.0 | 274.5 | 290.5 |
| PATAMI (RMmn) | 173.1 | 192.2 | 199.9 | 214.7 |
| EPS (sen) | 32.5 | 36.1 | 37.5 | 40.2 |
| EPS growth (%) | +14.8 | +11.1 | +3.8 | +7.4 |
| PER (x) | 24.5 | 22.1 | 21.3 | 19.8 |
| Net Dividend (sen) | 52.0 | 52.0 | 35.6 | 38.2 |
| Dividend yield (%) | 6.5 | 6.5 | 4.5 | 4.8 |

Source: Forecasts by MIDFR

Contributions from Bursa-Suq-AI Sila' (BSAS) is expected to trend higher capitalising on the potential growth of Islamic financing and capital market. ADV for BSAS continued its impressive growth trajectory (+91.0%yoy) to RM7.24b in 3Q14. Value of listed sukuks rose by 10.2%yoy to USD35.8b as at Sep'14. Management plans to attract more participants as well as introduce a change in the fee structure for BSAS. It is currently charging a gross fee of RM15 per transaction and transaction fee of RM6 for every RM1m in value of transaction. Moving forward, Bursa is looking into a tiered-pricing which will benefit participants with large trades via lower fee charges. Nonetheless, we factored in a moderated growth in sukuk listing into our forecasts. This is due to the possibility of deferred issuance on the back of potentially higher interest rates in FY15. However, we still anticipate revenue from BSAS to rise on absolute basis. Eventually, we expect BSAS's contribution to Bursa's earnings to rise in significance, riding on the potential growth of Islamic financing and capital market.

FPOL, ETBS and ASEAN Trading Link have yet to contribute significantly. We gather that contribution to earnings is still low from new products such as USD RBD Palm Olein Futures (FPOL) and Exchange Traded Bonds and Sukuk (ETBS). Revenue contributions from FPOL and ETBS are expected to also remain marginal in the future. A similar trend was observed for equity trading revenue contribution from the ASEAN Trading Link platform which connects Malaysia, Singapore and Thailand exchanges.

To introduce more new products to the market. Thus far, Gold Futures (FGLD) has been well-received especially among retail investors and is gaining traction. Bursa is planning to launch Silver Futures in FY15 and 5-Month Malaysian Government Securities Futures this month.

Initiatives to further increase participation in securities and derivatives trading are still in the works. Management also indicated its plans to grow participation in the derivatives market from domestic institutions by encouraging hedging from refineries, producers and manufacturers. Even though revenue contribution from these participants in the short term may be minimal, we view that these initiatives as positive in the longer run.


Outreach initiatives such as BursaMKTPLC to increase retail participation are gaining traction. ADV from retail trades contributed 26.2% of the ADV (OMT) traded for securities market of RM2.1b in 9MFY14. This compares to 22.1% in FY13. The effective clearing fee rate in 3Q14 was also higher at 2.44bp compared to 2.31bp in 3Q13.

Dividend payout expected to remain above 90%. Management indicated its commitment to continue rewarding shareholders by keeping the dividend payout at above 90%.

FORECAST

We revised our forecasts for FY15 earnings to RM199.9m (previously: RM216.0m) on the back of some challenges which we anticipate on its securities revenue. Hence, this translates into a moderate earnings growth of 3.8%yoy in FY15 supported by: (i) higher activities in derivatives market amidst global economic uncertainties, (ii) impending IPOs to support securities trading revenue, and (iii) a higher contribution from BSAS. We have also introduced our FY16 numbers.

VALUATION AND RECOMMENDATION

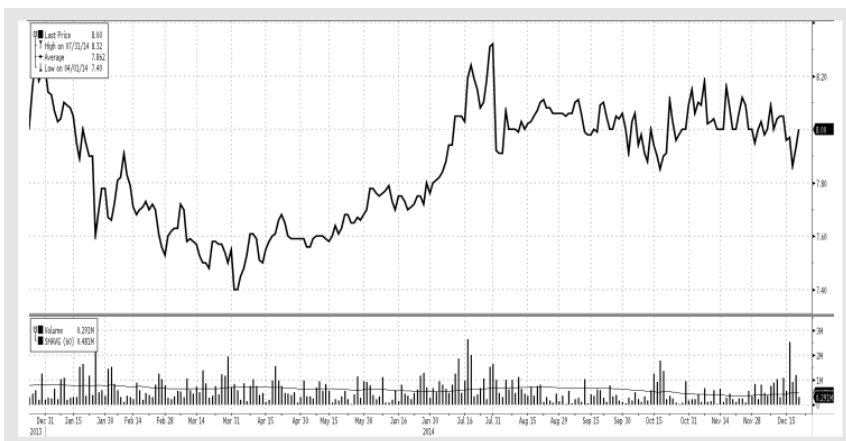
Maintain BUY. Dividend yield looks attractive at between 4-5%. Our dividend assumptions for FY15 and FY16 are based on Bursa's 3-year average payout in excess of 95%. We maintain our buy call on Bursa with a revised TP of RM8.84 based on FY15F EPS of 37.5sen pegged to its historical 5-year average PER of 23.6x. 

Key operating drivers in the securities market by quarters

| | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
| No. of trading days (days) | 62 | 58 | 63 | 63 | 63 | 59 | 63 | 61 |
| FBM KLCI (points) | 1,688.95 | 1,671.63 | 1,773.54 | 1,768.62 | 1,866.96 | 1,849.21 | 1,882.71 | 1,846.31 |
| Average daily trading value (OMT and DBT) (RM bn) | 1.51 | 1.72 | 2.39 | 2.08 | 2.33 | 2.16 | 2.19 | 2.30 |
| Average daily trading volume (OMT and DBT) (bn shares) | 1.05 | 1.07 | 1.71 | 1.74 | 1.71 | 2.05 | 1.88 | 2.77 |
| Effective clearing fee rate (basis points) | 2.24 | 2.20 | 2.28 | 2.31 | 2.38 | 2.37 | 2.30 | 2.44 |
| Velocity (%) | 25 | 28 | 37 | 31 | 25 | 30 | 29 | 30 |
| Daily average contracts traded | 43,555 | 45,188 | 41,673 | 45,700 | 41,535 | 50,046 | 44,082 | 54,019 |
| BSAS daily average trading value (RM bn) | 2.99 | 3.65 | 3.40 | 3.79 | 4.67 | 5.10 | 5.14 | 7.24 |
| Number of new structured warrant listings | 138 | 122 | 68 | 113 | 107 | 156 | 63 | 116 |
| Number of IPOs | 3 | 2 | 5 | 4 | 7 | 2 | 4 | 4 |
| Total funds raised: | | | | | | | | |
| -IPOS (RM bn) | 4.63 | 0.39 | 1.41 | 1.58 | 4.84 | 1.90 | 2.80 | 0.97 |
| -Secondary issues (RM bn) | 4.40 | 2.03 | 6.61 | 1.34 | 4.37 | 5.51 | 7.95 | 3.49 |
| Market capitalisation at end of period (RM bn) | 1,465.70 | 1,472.48 | 1,598.81 | 1,611.20 | 1,702.15 | 1,791.11 | 1,770.42 | 1,774.09 |

Source: Company

DAILY PRICE CHART



Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >15% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -15% and +15% over the next 12 months. |
| SELL | <i>Negative</i> total return is expected, by -15% or more, over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >15% 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. |