

GROUP MANAGING DIRECTOR'S MANAGEMENT DISCUSSION & ANALYSIS

We are also in the process of further digitalising workflows and operational processes affecting remisers and dealers, integrating mobility with service workflows, digital knowledge centre and business dashboards that will optimise productivity and efficiency for remote work. When this process is completed, our client reach will expand beyond traditional branch network, propelling growth through convenient, seamless and personalised client experience.

As with the years before, investor literacy remains a key priority for the Stockbroking division. We look forward to providing enhanced outreach to clients in 2021 via webinars and social media.

The year in review saw the Stockbroking division continuing to receive a host of awards and accolades. At the prestigious annual Bursa Excellence Awards, the division was awarded under the Best Overall Equities Participating Organisation, Best Structured Warrant Issuer, Best Retail Equities Participating Organisation and Best Institutional Equities Participating Organisation Investment Bank. The recent Bursa Malaysia Salesforce Retail Investor Campaign 2020 also witnessed the division clinching awards under the Top Dealer Category for Highest Traded Value for ETFs and Highest Traded Value for L&I ETFs. It also won under the Top Remisier Category for Highest Traded Value – New Accounts (Conventional), Highest Traded Value for ETFs and Highest Reactivation of – Inactive & Dormant Accounts.



Investment Banking

Against the backdrop of the global COVID-19 pandemic, the Investment Banking (“IB”) division as a whole recorded PBT of RM34.0 million over RM24.7 million in 2019, which was attributable to strong performance from the Treasury business, higher net income and reversal of provision for credit loss, which partially offset lower investment banking fee income.

In the equity capital market, the division participated in the listing of Reservoir Link Energy Berhad on the ACE Market - the first O&G listing since 2017. During the year, it also advised on the transfer listing of Nova Wellness Group Berhad from the ACE Market to the Main Market and participated in the biggest Initial Public Offering of 2020, as a Joint Underwriter to the listing of Mr D.I.Y Group (M) Berhad on the Main Market.

Towards the end of the year, it further advised and acted as the principal adviser, managing and joint underwriter for the largest underwritten rights issue in 2020 by JAKS Resources Berhad raising a total of RM238 million, of which RM100 million was underwritten by the IB division. For equity private placement, it acted as the placement agent/manager and sole bookrunner to Komarkcorp Berhad and joint placement agent/manager to KNM Group Berhad.

On the fixed income front, its Debt Capital Markets team was actively involved in various government-guaranteed Sukuk issuances and advised on the maiden issuance of RM3.5 billion Sukuk Murabahah Programme, followed by another issuance of RM1.35 billion and RM1.5 billion respectively by Prasarana Malaysia Berhad. It also advised Malaysia Rail Link Sdn Bhd for its inaugural issuance of RM2.0 billion Sukuk Murabahah Programme. On the corporate side, it advised on a Sukuk Wakalah Programme of RM200 million by SHC Capital Sdn Bhd, with the successful issuance of the first tranche of Islamic medium-term notes of RM80 million.

On our loan assets portfolio, the Corporate Banking team has been actively managing and monitoring our exposure and cautiously growing our portfolio by selectively pursuing lending pipelines generated through our IB channels such as the Merger & Acquisition advisory leads. The team is currently managing a loan portfolio of circa RM655 million as at 31 December 2020 and hoping to grow cautiously in 2021.

As for Islamic Capital Markets, the division will continue exploring innovative Islamic instruments for suitable clients, be it in the form of hybrid debt securities such as Islamic convertible sukuk or equity offerings such as Islamic Redeemable Convertible Preference Shares. With the presence of more fintech players in industry shaping the future of our capital markets, it will also explore the alternative fundraising mode for clients such as the issuance of Shariah-compliant tokenised securities, which is now made possible under the Guidelines on Digital Assets launched by the Securities Commission Malaysia during the year.

The Treasury business achieved outstanding performance in FYE2020 with PBT doubling to RM25.9 million over RM12.0 million in the previous year. This was due to higher revenue from improved trading and investment income, as well as, higher income from foreign exchange and structured product offerings.

In the first quarter of 2020, Bank Negara Malaysia had announced several prudential measures aimed at ensuring that banking institutions remain focused on supporting the economy during exceptional circumstances of the COVID-19 outbreak.

In the midst of such challenging environment, the Treasury division was able to maintain stable funding throughout the year with both our Liquidity Coverage Ratio and Net Stable Funding Ratio remaining above 100%.

The division also gained tremendous traction with the Wealth Management division within the Group, in efforts to increase transaction volumes on products across different asset classes. We anticipate that the division will continue providing this support in the near term with the shared goal of raising business volumes and profitability for the Group.

To further the division's continual growth and in line with Kenanga's overall digitalisation strategy, it embarked on a front-end system automation exercise during the year. The system, which is expected to be ready by the end of this year, will automate the processing of its Dual Currency Investment and Equity-Linked Investment product transactions, taking efficiency, client experience and overall transparency to the next level.



Investment and Wealth Management

Investment and Wealth Management registered a PBT of RM13.6 million, relative to RM5.2 million from the year before, mainly due to higher management and performance fee earned. Despite a turbulent year, assets under administration (“AUA”) increased to RM13.83 billion from RM13.49 billion in 2019. The financial performance for Kenanga Investors Group (“KIG”), which comprises Kenanga Investors Berhad (“KIB”), Kenanga Islamic Investors Berhad (“KIIB”), and Libra Invest Berhad (“LIB”), in 2020 exceeded expectations, against the backdrop of volatile markets and a weaker economy.

As the investment and wealth management arm of KIBB, KIG provides investment solutions ranging from collective investment schemes, portfolio management services, ETFs, financial planning and alternative investments for retail, high net worth clients, corporate and institutional clients. It is a repeat recipient of distinguished industry accolades such as Refinitiv Lipper, Morningstar, FSMOne Recommended Unit Trusts Awards and Asia Asset Management's Best of the Best Awards.

In 2020, KIG's funds and mandates recorded notable outperformance against its peers and benchmarks. In view of this and other successes, KIG won three awards at the FSMOne Recommended Unit Trusts Awards 2020/21. Its flagship funds—Kenanga Growth Fund and Kenanga Syariah Growth Fund, won awards in the Core Equity-Malaysia and Core Equity-Malaysia (Islamic) categories, and the Kenanga Balanced Fund won an award in the Balanced-Malaysia category. This is the 11th consecutive year that KGF has won the Core Equity title. In 2021, it clinched awards from the Best of the Best Awards for Malaysia – Best Equity Manager, Malaysia – Best Islamic Fund (Equity), Malaysia – CIO of the Year (5th win) and Malaysia – Best House for Alternatives. Additionally, at the Refinitiv Lipper Fund Awards 2021, the Kenanga SyariahEXTRA Fund was awarded “Mixed Asset MYR Balanced – Malaysia” award for 3-years and 5-years in both categories of Malaysia Islamic Funds and Malaysia Provident Funds while the Kenanga Growth Opportunities Fund won “Equity Malaysia Small & Mid Caps” for 3-years under the Malaysia Provident Funds category. Kenanga Investors also won in the overall best Malaysia Islamic Funds Group Awards (Equity) and Malaysia Provident Funds Group Awards (Mixed Assets) categories.

KIG has been a signatory to the Malaysian Code for Institutional Investors (“Code”) since 2017 and it recently became a member of the Institutional Investors Council (IIC). KIG is committed to work with asset owners, regulators and a wide range of market participants to deliver on this step change to stewardship and Environmental, Social and Governance (“ESG”) considerations, ensuring that it takes its place at the heart of the investment process and to promote the sustainability agenda. In addition to financial considerations, the integration of ESG factors in the investment process is essential to make better informed and holistic investment decisions to ensure long-term sustainable value to stakeholders. The continuous delivery of consistent performance stems from the premise of an effective stewardship and active ownership approach throughout the investment value chain.

For 2020, KIG declared an income repatriation and distribution amounting over RM531 million to its investors, making it the highest pay-out ever.



Futures Broking

Global listed derivatives saw a significant increase in volume in 2020 as volatility fuelled by the COVID-19 pandemic and global political uncertainty drove investors and traders to hedge their portfolios or seek new trading opportunities, respectively. However, growth in the commission income of our listed derivatives business was impaired by a decline in interest income amid the falling interest rate environment. For FYE2020, Kenanga Futures Sdn Bhd (“KFSB”) recorded a marginally lower Loss Before Tax (“LBT”) of RM2.8 million from LBT of RM2.9 million in FYE2019.

KFSB saw a surge in contracts executed on Bursa Malaysia Derivatives Berhad in line with the rise in overall volume on the exchange. Meanwhile, KFSB continued to register year-on-year increases in contracts executed on both the US Exchange, CME Group, as well as, the Hong Kong Futures Exchange.

With the nationwide Movement Control Order in force in Malaysia from March 2020, KFSB swiftly pivoted to its e-sales channel to maintain strong virtual engagement with clients. Working in the new normal also spurred KFSB to accelerate its digital plan and expand its e-onboarding and e-learning initiatives.

KFSB continued to be recognised as one of the top derivatives brokers in the country in the Bursa Excellence Award 2020. KFSB was awarded the Champion for Best Institutional Derivatives Trading Participant, Best Trading Participant – Equity & Financial Derivatives for the 18th year in a row and was also the second runner up for Best Overall Derivatives Trading Participant.