

29 July 2021

# Bursa Malaysia Bhd

## Buy On Weakness

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1HFY21 PAT of RM210.4m is deemed below our (55%), but within consensus' (60%), expectation. Near-term earnings have peaked, but there is still value. Despite FY21-22E earnings reduction (5-10%), BURSA is traded at FY22E PER of 18.6x (28% discount to SGX) with YTD-21 ADV of c.RM4.4b in contrast to pre-COVID Fwd. PER of 21x (ADV of c.RM2.8b). In a bear case, we think the floor valuation is pegged at 17x PER (or RM6.95), -2.0SD from the mean. Dividend yield of c.5% is an additional safety net, while economic reopening serves as an immediate catalyst. Hence, despite lowering TP to RM8.20 @ FY22E PER of 20x (-1.0SD), we upgrade BURSA to OP.

**Deemed below expectations.** We deem 1HFY21 PAT of RM210.4m (+39% YoY) as below our (55%), but within consensus' (60%), expectation, as we expect a weaker 2HFY21. Deviation is due to lower-than-expected Average Daily Trading Value (ADV) of RM3.8b in 2QFY21 (vs. our expected RM4.4b). 1HFY21 DPS of 24.0 sen is within expectation.

**Results' highlight.** YoY, 1HFY21 PAT rose (+39%) mainly due to higher securities trading revenue (+41%) as ADV rose 41% to RM4.41b. This was further boosted by higher stable revenue (29%) from better: (i) listing & issuer services (+44%) on greater number of corporate exercises, and (ii) depository services (41%) – higher ROD (record of depository), share transfer, and account opening fees. Around 228k (+36.5%) new CDS accounts were opened in 1HFY21. QoQ, 2QFY21 PAT fell (-27%) as securities trading revenue declined (-24%) on lower ADV (-26%) of RM3.75b, exacerbated by higher cost to income ratio (+9.2 ppt).

**Earnings have peaked but there is value.** Average MTD (July) ADV has fallen 18% to RM3.09b and while we think earnings have peaked, we believe there is still value to be found. Structurally, with increasing digitalisation, we could be seeing a shift towards greater retail participation as evidenced in 1HFY21 with: (i) retail participation at 39% (vs. FY17-19 average of 23%), and (ii) retail ADV of RM1.74b (vs. FY17-19 average of RM512m). Although, political uncertainty is likely to keep foreign investors on the sidelines, this may be offset by growing retail ADV.

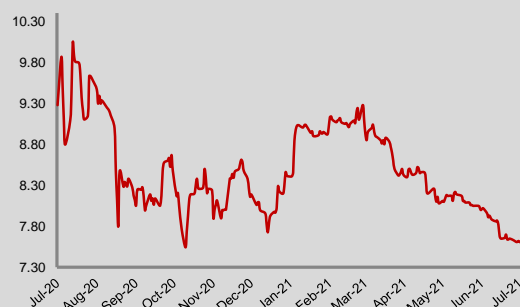
**Reduce FY21-22E earnings by 5-10%** on lower FY21-22E ADV of RM3.77-3.40b (vs. RM4.4-3.7b previously) and higher operating cost (+3%).

**Appealing valuation with a safety net.** Despite cutting our earnings forecasts, BURSA's valuation (FY22E PER of 18.6x) trading at a 28% discount to its peer - SGX in Singapore, makes it appealing. This is especially so given SGX-listed stocks' tendency to trade at a discount to stocks listed on Bursa Malaysia. The steep discount is more than enough to price in the political uncertainty and we think in a bear case, downside is limited with floor valuation of 17x PER or c.RM6.95 per share (-2.0SD from mean), implying ADV of c.RM2.5b. Note that pre-COVID, Bursa traded at Fwd. PER of c.21x with average ADV of c.RM2.8b. FY21-22E dividend yields of 5.4-5.0% also provide an additional safety net strengthened by an immediate catalyst in the form of an impending economic reopening. Upgrading BURSA to **OUTPERFORM (from MP) albeit with a lower TP of RM8.20 (from RM8.80)** based on FY22E PER of 20x (-1.0SD from mean), we recommend buying on weakness.

# OUTPERFORM ↑

Price : RM7.60  
Target Price : RM8.20 ↓

### Share Price Performance



KLCI	1,515.39
YTD KLCI chg	-6.9%
YTD stock price chg	-7.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	BURSA MK Equity
Market Cap (RM m)	6,150.7
Shares Outstanding	809.3
52-week range (H)	10.88
52-week range (L)	7.50
3-mth avg daily vol	1,218,637
Free Float	77%
Beta	1.1

### Major Shareholders

Capital Market Development Fund	18.6%
Kumpulan Wang Persaraan	11.2%
Employees Provident Fund	7.5%

### Summary Earnings Table

FY Dec (RM m)	2020E	2021E	2022E
<b>Operating Revenue</b>	779	758	721
Operating Income	493	474	432
PBT	507	487	446
<b>PAT</b>	<b>378</b>	<b>363</b>	<b>331</b>
Consensus (NP)	-	349	300
Earnings Revision	-	-5%	-10%
EPS (sen)	47.0	44.9	40.9
EPS growth (%)	103.5	-4.4	-8.9
DPS (sen)	51.0	41.0	38.0
BVPS (RM)	1.1	1.2	1.2
PER (x)	16.2	16.9	18.6
Price/Book (x)	6.8	6.6	6.4
Net Gearing (x)	-0.5	-0.5	-0.4
Dividend Yield (%)	6.7	5.4	5.0



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**Risks to our call include:** (i) lower-than-expected trading volume in the securities and derivatives markets, (ii) higher-than-expected opex, (iii) fewer initial public offerings, and (iv) lower-than-expected dividend payout.

<b>Results Highlights</b>								
	<b>2Q21</b>	<b>1Q21</b>	<b>QoQ Chg.</b>	<b>2Q20</b>	<b>YoY Chg.</b>	<b>6M21</b>	<b>6M20</b>	<b>YoY Chg.</b>
<b>FYE Dec (RM m)</b>								
<b>Total trading revenue</b>	<b>137.6</b>	<b>173.4</b>	<b>-20.6%</b>	<b>131.4</b>	<b>4.8%</b>	<b>311.1</b>	<b>236.2</b>	<b>31.7%</b>
- Securities market	115.3	150.9	-23.6%	110.1	4.7%	266.1	188.2	41.4%
- Derivatives market	22.4	22.6	-0.8%	21.3	5.3%	44.9	48.0	-6.4%
Total stable revenue	54.5	54.6	-0.1%	43.8	24.4%	109.1	84.6	29.0%
<b>Operating revenue</b>	<b>192.2</b>	<b>228.0</b>	<b>-15.7%</b>	<b>175.2</b>	<b>9.7%</b>	<b>420.2</b>	<b>320.7</b>	<b>31.0%</b>
Other Income	3.9	4.3	-7.7%	4.6	-14.0%	8.2	9.8	-16.3%
<b>Total Income</b>	<b>196.1</b>	<b>232.3</b>	<b>-15.6%</b>	<b>179.8</b>	<b>9.1%</b>	<b>428.4</b>	<b>330.5</b>	<b>29.6%</b>
Less: Staff Costs	(42.9)	(39.1)	9.6%	(35.9)	19.4%	(82.0)	(70.0)	17.1%
Less: Depreciation and amortisation	(5.3)	(5.2)	2.8%	(5.3)	0.6%	(10.5)	(10.9)	-3.3%
Less: Other operating expenses	(28.5)	(25.1)	13.6%	(22.4)	27.2%	(53.6)	(46.2)	16.0%
Less: Finance Costs	(0.1)	(0.1)	0.8%	(0.1)	0.0%	(0.3)	(0.3)	0.0%
<b>Profit before tax</b>	<b>119.3</b>	<b>162.8</b>	<b>-26.7%</b>	<b>116.1</b>	<b>2.8%</b>	<b>282.1</b>	<b>203.2</b>	<b>38.8%</b>
Less: Income tax expense	(30.3)	(41.4)	-26.7%	(29.8)	1.6%	(71.7)	(52.2)	37.3%
Less: Minority interest	-	-	nm	-	nm	-	-	nm!
<b>PAT</b>	<b>89.0</b>	<b>121.4</b>	<b>-26.7%</b>	<b>86.2</b>	<b>3.2%</b>	<b>210.4</b>	<b>151.0</b>	<b>39.4%</b>
EPS (sen)	11.0	15.0	-26.8%	10.7	3.1%	26.0	18.7	39.2%
DPS (sen)	24.0	-		17.0		24.0	17.0	
Staff Costs-to-Income Ratio	21.9%	16.8%		20.0%		19.1%	21.2%	
Cost-to-Income Ratio	39.1%	29.9%		35.4%		34.1%	38.5%	
Effective Tax Rate	25.4%	25.4%		25.7%		25.4%	25.7%	
<b>Market Statistics</b>								
# of Trading Days	60	60	0.0%	59	1.7%	120	122	-1.6%
Avg FBMKLCI (Index Points)	1,553	1,600	-3.0%	1,426	8.9%	1,556	1,528	1.8%
Avg FBMKLCI Mkt Cap (RM'bn)	1,029	1,035	-0.6%	924	11.3%	1,021	986	3.6%
Avg CPO 3 <sup>rd</sup> Month Forward Contract	3,791	3,576	6.0%	2,228	70.1%	3,304	2,393	38.0%
Daily Avg Trading Value - Equity (RM'mn)	3,750	5,078	-26.2%	3,743	0.2%	4,414	3,136	40.7%
Daily Avg Trading Volume - Equity (mn shares)	6,467	8,454	-23.5%	6,561	-1.4%	7,461	4,952	50.7%
Daily Avg Trading Volume - Index Futures (Contracts)	2,963	3,161	-6.3%	3,010	-1.6%	3,062	3,055	0.2%
Daily Average Trading Volume - CPO Futures (Contracts)	39,783	37,395	6.4%	35,016	13.6%	38,589	36,889	4.6%

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div (%)	Ylc	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<b>NON-BANK FINANCIAL INSTITUTIONS</b>																			
AEON CREDIT SERVICE M BHD	11.96	3,053.5	N	02/2022	10.0%	9.9%	44.8%	14.1%	13.6	9.4	8.3	1.8	1.6	16.6%	3.0%	14.00	OP		
BURSA MALAYSIA BHD	7.60	6,150.7	Y	12/2021	-2.7%	-4.9%	-4.0%	-8.9%	16.2	16.9	18.6	6.8	6.6	39.6%	5.4%	8.20	OP		
CTOS DIGITAL BHD	1.56	3,432.0	Y	12/2021	16.1%	15.2%	46.7%	18.4%	87.6	59.7	50.4	31.0	11.0	26.9%	1.0%	1.40	OP		
LPI CAPITAL BERHAD	13.82	5,505.7	N	12/2021	2.9%	4.0%	2.4%	2.9%	16.4	16.0	15.5	2.7	2.5	16.3%	5.4%	15.10	OP		
SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD	4.30	3,593.2	Y	12/2021	4.9%	1.7%	3.9%	-9.2%	9.8	9.5	10.4	2.4	2.1	23.3%	4.7%	5.85	OP		
<b>Simple Average</b>																			

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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