

29 July 2022

Bursa Malaysia Bhd

Softer Trading To Persist Ahead

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1HFY22 net profit of RM127.4m (-39%) and 15.0 sen dividend are within expectations. Outlook for 2022 remains bleak compared to prior periods as trading sentiment stays subjugated, no thanks to global conflicts and supply chain disruptions. Progressive economic recovery post-pandemic may ease concerns albeit only for the medium term. Maintain MP and TP of RM6.30. There is no adjustment to our TP based on ESG of which it is given a 3-star rating as appraised by us.

1HFY22 as expected. 1HFY22 net profit of RM127.4m made up 53% of both our and consensus full-year estimates, which is in line with expectations. The reported 2QFY22 earnings of RM59.5m is closely within our earlier previewed RM60-65m estimate on 15 July 2022. An interim dividend of 15.0 sen (95% payout) is also broadly in line with our c.90% full-year payment.

YoY, 1HFY22 operating revenue fell to RM309.4m (-26%), stemmed from diminished ADV at RM2,530m (1HFY21: RM4,842m) leading to securities trading revenue to plunge (-45%). That said, derivative-based trading income grew slightly (+6%) as futures market participation benefitted from volatile commodity prices. Operating expenses were leaner (-2%) absent 1HFY21's higher variable performance bonus but the lower top line resulted in CIR to spike to 45.2% (+11.1ppt). 1HFY22 net earnings came in at RM127.4m (-39%).

QoQ, 2QFY22 securities trading activities also came in sluggish as sentiment was dragged by inflationary concerns, and with interest rate hikes moderating growth expectations. BURSA continued to trim its operating expenses, but similarly to the above, was outpaced by the drop in income. 2QFY22 net profit reported at RM59.5m (-13%).

Still far from the end of the tunnel. We anticipate the upcoming quarters to show weakness in lieu of unfavourable global macros. The supply chain disruptions stirred by the Russia-Ukraine conflict may require significant efforts to mend even if a resolution is achieved. Foreign participants are expected to side line from local markets as the US Fed continue to raise interest rates with our domestic rising OPR (another two 25 bps hikes expected in 2022) would only further widen the risk-reward profile for margin trading. That said, **near-term positive catalysts could include:** (i) earlier-than-expected General Elections (pre-2023); (ii) positive economic reports (i.e. lower-than-expected inflation, higher CPI and GDP) locally and internationally; and (iii) sustained performance in commodity prices.

Post results, we tweak our FY22E earnings by -1% from model updates.

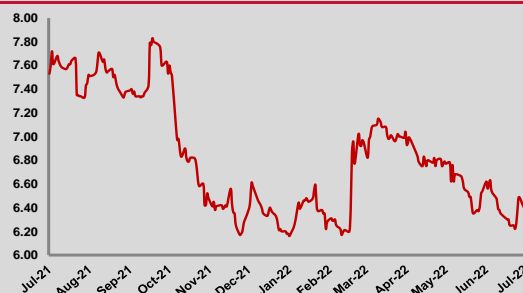
Maintain MARKET PERFORM and TP of RM6.30. Our call is based on an unchanged 20.0x FY23E PER, in line with its global exchange peers' average and pre-pandemic valuations, which is fairly valued at current levels. Coming away from an equities rally in recent years, the group looks to increase contributions from other products to reduce its sensitivity to market forces. New channels are in the works of being introduced (i.e. Voluntary Carbon Market, broaden ESG indices, new Digital Gold Dinar asset class) but we believe they would only be earnings-accretive in the medium-term.

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

MARKET PERFORM ↔

Price : RM6.43
Target Price : RM6.30 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,486.25 |
| YTD KLCI chg | -5.2% |
| YTD stock price chg | -1.8% |

Stock Information

| | |
|---------------------|-----------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | BURSA MK Equity |
| Market Cap (RM m) | 5,203.8 |
| Shares Outstanding | 809.3 |
| 52-week range (H) | 7.83 |
| 52-week range (L) | 6.16 |
| 3-mth avg daily vol | 410,160 |
| Free Float | 70% |
| Beta | 0.8 |

Major Shareholders

| | |
|---------------------------------|-------|
| Capital Market Development Fund | 18.6% |
| Kumpulan Wang Persaraan | 11.0% |
| Employees Provident Fund | 9.7% |

Summary Earnings Table

| FY Dec (RM m) | 2021A | 2022E | 2023E |
|--------------------------|--------------|--------------|--------------|
| Operating Revenue | 751.6 | 578.4 | 582.4 |
| Operating Income | 465.8 | 319.3 | 328.0 |
| PBT | 478.4 | 332.6 | 341.2 |
| PAT | 355.3 | 238.1 | 254.6 |
| Consensus (NP) | | 239.5 | 256.3 |
| Earnings Revision | | -1% | 0% |
| EPS (sen) | 43.9 | 29.4 | 31.5 |
| EPS growth (%) | -6.0 | -33.0 | 6.9 |
| DPS (sen) | 41.0 | 26.0 | 28.0 |
| BVPS (RM) | 1.01 | 1.04 | 1.08 |
| ROE (%) | 41.4 | 28.7 | 29.6 |
| PER (x) | 14.6 | 21.9 | 20.4 |
| Price/Book (x) | 6.4 | 6.2 | 6.0 |
| Net Gearing (x) | -0.6 | -0.4 | -0.4 |
| Dividend Yield (%) | 6.4 | 4.0 | 4.4 |

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Results Highlights

| | 2Q | 1Q | QoQ | 2Q | YoY | 6M | 6M | YoY |
|--|--------------|--------------|---------------|--------------|---------------|--------------|--------------|---------------|
| FYE Dec (RM m) | FY22 | FY22 | Chg | FY21 | Chg | FY22 | FY21 | Chg |
| Total trading revenue | 91.2 | 103.8 | -12.1% | 137.6 | -33.8% | 194.9 | 311.1 | -37.3% |
| - Securities market | 66.8 | 80.4 | -17.0% | 115.3 | -42.1% | 147.2 | 266.1 | -44.7% |
| - Derivatives market | 24.4 | 23.3 | 4.6% | 22.4 | 9.1% | 47.7 | 44.9 | 6.2% |
| Total stable revenue | 57.2 | 57.3 | -0.1% | 54.5 | 4.9% | 114.5 | 109.1 | 5.0% |
| Operating revenue | 148.4 | 161.0 | -7.9% | 192.2 | -22.8% | 309.4 | 420.2 | -26.4% |
| Other Income | 3.5 | 4.3 | -17.7% | 3.9 | -11.1% | 7.8 | 8.2 | -5.5% |
| Total Income | 151.9 | 165.3 | -8.1% | 196.1 | -22.5% | 317.2 | 428.4 | -26.0% |
| Less: Staff Costs | -38.7 | -39.3 | -1.4% | -42.9 | -9.7% | -78.0 | -82.0 | -4.9% |
| Less: Depreciation and amortisation | -6.3 | -6.4 | -0.9% | -5.3 | 18.6% | -12.7 | -10.5 | 20.7% |
| Less: Other operating expenses | -25.7 | -26.9 | -4.5% | -28.5 | -9.9% | -52.5 | -53.6 | -1.9% |
| Less: Finance Costs | -0.1 | -0.1 | 0.8% | -0.1 | 0.0% | -0.3 | -0.3 | 0.0% |
| Profit before tax | 81.1 | 92.6 | -12.5% | 119.3 | -32.0% | 173.7 | 282.1 | -38.4% |
| Less: Income tax expense | -21.6 | -24.7 | -12.5% | -30.3 | -28.8% | -46.3 | -71.7 | -35.5% |
| Less: Minority interest | 0.0 | 0.0 | N.M. | 0.0 | N.M. | 0.0 | 0.0 | N.M. |
| PAT | 59.5 | 68.0 | -12.5% | 89.0 | -33.2% | 127.4 | 210.4 | -39.4% |
| EPS (sen) | 7.3 | 8.4 | -12.5% | 11.0 | -33.2% | 15.7 | 26.0 | -39.4% |
| DPS (sen) | 15.0 | 0.0 | | 24.0 | | 15.0 | 24.0 | |
| Staff Costs-to-Income Ratio | 25.5% | 23.8% | | 21.9% | | 24.6% | 19.1% | |
| Cost-to-Income Ratio | 46.5% | 43.9% | | 39.1% | | 45.2% | 34.1% | |
| Effective Tax Rate | 26.6% | 26.6% | | 25.4% | | 26.6% | 25.4% | |
| Market Statistics | | | | | | | | |
| # of Trading Days | 59 | 61 | -3.3% | 60 | -1.7% | 120 | 120 | 0.0% |
| Avg FBMKLCI (Index Points) | 1,516 | 1,577 | -3.9% | 1,553 | -2.4% | 1,545 | 1,556 | -0.7% |
| Avg FBMKLCI Mkt Cap (RM'bn) | 1,029 | 1,040 | -1.0% | 1,029 | 0.1% | 1,027 | 1,021 | 0.6% |
| Avg CPO 3 rd Month Forward Contract | 5,929 | 5,604 | 5.8% | 3,791 | 56.4% | 5,133 | 3,304 | 55.4% |
| Daily Avg Trading Value - Equity (RM'mn) | 2,101 | 2,598 | -19.1% | 3,750 | -44.0% | 2,530 | 4,842 | -47.7% |
| Daily Avg Trading Volume - Equity (mn shares) | 2,893 | 3,227 | -10.3% | 6,467 | -55.3% | 3,548 | 8,558 | -58.5% |
| Daily Avg Trading Volume - Index Futures (Contracts) | 2,932 | 2,881 | 1.8% | 2,853 | 2.8% | 2,849 | 3,007 | -5.2% |
| Daily Average Trading Volume - CPO Futures (Contracts) | 38,263 | 39,925 | -4.2% | 39,783 | -3.8% | 38,495 | 38,589 | -0.2% |

Source: Company, Kenanga Research, Bloomberg

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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 Yld | 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. | | |
| NON-BANK FINANCIAL INSTITUTIONS | | | | | | | | | | | | | | | | | |
| AEON CREDIT SERVICE M BHD | 14.26 | 3,640.7 | N | 02/2023 | 6.4% | 10.4% | 31.8% | 5.9% | 10.0 | 7.6 | 7.1 | 1.7 | 1.4 | 20.4% | 4.3% | 17.20 | OP |
| BURSA MALAYSIA BHD | 6.43 | 5,203.8 | Y | 12/2022 | -22.6% | 0.2% | -32.6% | 6.7% | 14.6 | 21.7 | 20.4 | 6.4 | 6.2 | 28.9% | 4.2% | 6.30 | MP |
| CTOS DIGITAL BHD | 1.44 | 3,326.4 | Y | 12/2022 | 24.5% | 15.2% | 31.8% | 16.7% | 56.0 | 42.5 | 36.4 | 11.3 | 5.9 | 18.1% | 1.3% | 1.55 | OP |
| LPI CAPITAL BHD | 13.44 | 5,354.3 | N | 12/2022 | -3.7% | 1.7% | -25.5% | 27.4% | 15.5 | 20.9 | 16.4 | 2.5 | 2.5 | 11.9% | 4.5% | 14.10 | MP |
| SYARIKAT TAKAFUL MALAYSIA KELUARGA BHD | 3.40 | 2,846.8 | Y | 12/2022 | 4.3% | 4.3% | -16.0% | 5.2% | 6.9 | 8.2 | 7.8 | 1.6 | 1.4 | 18.0% | 4.1% | 3.90 | OP |
| Simple Average | | | | | 1.8% | 6.4% | -2.1% | 12.4% | 20.6 | 20.2 | 17.6 | 4.7 | 3.5 | 19.5% | 3.7% | | |

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

| | Criterion | Rating | | | | |
|-----------------|------------------------------------|--------|---|---|---|--|
| GENERAL | Earnings Sustainability & Quality | ★ | ★ | ★ | | |
| | Corporate Social Responsibility | ★ | ★ | ★ | | |
| | Management/Workforce Diversity | ★ | ★ | ★ | ★ | |
| | Accessibility & Transparency | ★ | ★ | ☆ | | |
| | Corruption-Free Pledge | ★ | ★ | ★ | | |
| | Carbon-Neutral Initiatives | ★ | ★ | ★ | ★ | |
| SPECIFIC | Cybersecurity/Data Privacy | ★ | ★ | ★ | | |
| | Digital Transformation | ★ | ★ | ★ | ☆ | |
| | Staff Welfare & Training | ★ | ★ | ☆ | | |
| | Sustainability Product Development | ★ | ★ | ★ | ★ | |
| OVERALL | | ★ | ★ | ★ | | |

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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