

Bursa Malaysia Berhad

(1818 | BURSA MK) Financial Services | Other Financials

Volatility is good for business

KEY INVESTMENT HIGHLIGHTS

- **Above expectations on higher trading revenues**
- **Volatility drove the trading revenues to strong growth**
- **Operating expenses well contained**
- **Potentially more volatility to come as market may reassess impact of Covid-19 to economy and corporate earnings**
- **Earnings forecast revised upwards by +8.8% and +7.7% for FY20 and FY21 respectively**
- **Upgrade to TRADING BUY with revised TP of RM6.45 (from RM5.90) as we rollover of the valuation to FY21**

Beat expectations. Bursa posted strong 1QFY20 PATAMI of +38.2%yoy. This had led to the result beating our expectations at 31.3% of our full year estimate. The variance was due to our underestimation of its revenue growth.

Volatility drove revenue growth. Operating revenue in 1QFY20 grew +19.8%yoy due to strong expansion of securities and derivatives trading revenue. These grew +32.2%yoy and +63.5%yoy respectively. The higher securities trading revenue was due to higher trades as volatility increased as a result of the Covid-19 pandemic and oil price collapse. Average daily value OMT rose +22.4%yoy to RM2.53b. Meanwhile, derivate trading saw higher average daily contract where it increased +80.7%yoy to 85,578 contracts.

Market capitalization fell on selling pressure. Fears of the Covid-19 pandemic increased in 1QFY20. Coupled with the collapse in global oil price, led to a global market selloff. As a result market capitalization fell -20.3%yoy to RM1.38t.

Operating expenses well in check. Total operating expenses grew on a slower pace than revenue. It increased +2.4%yoy to RM63.5m. Amongst the contributor was a higher manpower cost which was due to higher provision of variable costs.

Potentially more volatility to come. We are not discounting that there could be more volatility to the market as the full impact of the Covid-19 pandemic to the economy and corporate earnings becomes more apparent. This should benefit Bursa especially its trading revenue.

Earnings estimates. We are revising our FY20 and FY21 earnings forecast upwards by +8.8% and +7.7% respectively to take into account the higher volatility.

Recommendation. The uncertainties surrounding the global economy may lead to higher volatility in the market. As evident by the 1QFY20, higher volatility could mean higher revenue for Bursa, and better earnings. Therefore, we upgrade our call to TRADING BUY (from NEUTRAL). We revised our **TP to RM6.45 (from RM5.90)** as we rollover our valuation to FY21. Our TP is based on pegging FY21 EPS to PER of 23x.



Upgrade to TRADING BUY

(from NEUTRAL)

Revised Target Price: RM6.45

(from RM5.90)

RETURN STATISTICS

Price @ 30 th April 2020 (RM)	5.95
Expected share price return (%)	+9.3
Expected dividend yield (%)	+3.8
Expected total return (%)	+13.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	19.2	12.0
3 months	17.8	15.8
12 months	-10.4	4.5

KEY STATISTICS

FBM KLCI	1407.78
Syariah compliant	Yes
Issue shares (m)	807.48
Estimated free float (%)	74.10
Market Capitalisation (RM'm)	4810.59
52-wk price range	RM4.32 - RM7.13
Beta vs FBM KLCI (x)	0.99
Monthly velocity (%)	11.02
Monthly volatility (%)	11.20
3-mth average daily volume (m)	1.66
3-mth average daily value (RM'm)	8.85
Top Shareholders (%)	
CAPITAL MARKET DVLP FUND	18.59
Kumpulan Wang Persaraan Diperbadan	12.82
Employees Provident Fund Board	5.99

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INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018A	2019A	2020F	2021F	2022F
Revenue (RM'm)	550.0	502.5	531.8	540.4	546.2
EBITDA (RM'm)	330.1	256.3	313.3	321.0	333.2
Pre-tax Profit (RM'm)	308.2	255.8	292.5	299.9	312.4
PATAMI (RM'm)	224.0	185.9	225.2	231.0	240.6
EPS (sen)	27.7	23.0	27.9	28.6	29.8
EPS growth (%)	0.1	-17.0	21.5	2.5	4.2
PER (x)	21.5	25.9	21.3	20.8	19.9
Dividend (sen)	27.8	20.8	22.3	22.9	23.9
Dividend Yield (%)	4.7	3.5	3.8	3.9	4.0

Source: Company, MIDFR

1QFY20 RESULTS SUMMARY

FYE Dec (RM'm)	1Q20	1Q19	4Q19	YoY Chg	QoQ Chg
Operating revenue	145.5	121.4	122.7	19.8%	18.6%
Other income	5.2	5.1	6.7	2.6%	-21.7%
Total revenue	150.8	126.5	129.3	19.1%	16.6%
Staff costs	(34.2)	(33.5)	(32.3)	1.9%	5.8%
Depreciation and amortisation	(5.6)	(5.1)	(5.4)	9.5%	3.2%
Other operating expenses	(23.8)	(23.4)	(28.2)	1.5%	-15.7%
EBITDA	92.7	69.5	84.3	33.5%	10.0%
Pre-tax profit	87.1	64.4	78.9	35.3%	10.5%
Taxation	(22.4)	(16.2)	(17.7)	38.6%	26.2%
Minority interest	-	(1.4)	-	-100.0%	n.a.
PATAMI	64.7	46.9	61.1	38.2%	5.9%
EPS (sen)	8.0	5.8	7.4	37.9%	8.1%
Key Metric	1Q20	1Q19	4Q19	+/- ppts	+/- ppts
Cost-to-income ratio	42.1%	49.0%	51.0%	-6.9	-8.8
EBITDA margin	61.5%	54.9%	65.1%	6.6	-3.7
PATAMI margin	42.9%	37.0%	47.3%	5.9	-4.3
Effective tax rate	25.7%	25.1%	22.5%	0.6	3.2

Segments breakdown

Operating revenue	1Q20	1Q19	4Q19	YoY Chg	QoQ Chg
Securities trading revenue	78.1	59.0	59.2	32.2%	31.8%
Derivatives trading revenue	26.7	16.4	20.5	63.5%	30.2%
Bursa Suq Al-Sila (BSAS)	2.9	3.9	2.9	-25.2%	2.6%
Listing and issuer services	12.3	11.9	14.3	3.8%	-13.9%
Depository services	10.5	10.2	10.5	2.6%	0.1%
Market data	9.8	9.6	10.0	1.8%	-2.5%
Member services and connectivity	5.3	5.5	5.3	-3.6%	-0.5%

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.