

HLIB Research

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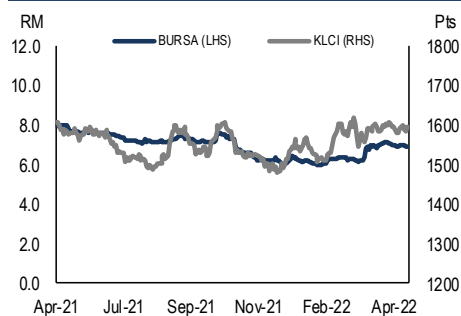
BUY (Maintain)

Target Price: RM7.95
Previously: RM7.95
Current Price: RM6.95

Capital upside	14.4%
Dividend yield	4.0%
Expected total return	18.4%

Sector coverage: Stock Exchange

Company description: Bursa operates the stock exchange of Malaysia. As a fully integrated exchange, it offers services such as trading, clearing, settlement and depository, amongst others.

Share price


	1M	3M	12M
Absolute	12.6	9.7	-19.8
Relative	10.5	6.9	-19.7

Stock information

Bloomberg ticker	BURSA MK
Bursa code	1818
Issued shares (m)	809
Market capitalisation (RM m)	5,649
3-mth average volume ('000)	1,021
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Capital Market DVLP Fund	18.6%
KWAP	11.0%
EPF	9.2%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	355	252	258
EPS - core (sen)	43.9	31.2	31.9
P/E (x)	15.8	22.3	21.8

Bursa Malaysia

Starting spot on

Bursa reported 1Q22 PATMI of RM68m (+5% QoQ, -44% YoY) – this was within expectations at 27% of ours and consensus full year forecast. While the results were seemingly unexciting, we continue to advocate the view that Bursa is a beneficiary of GE15 – past GEs have shown a positive impact to ADV on a YoY and MoM basis. With increasing probability of an early GE15 (we think in Aug-Oct), we believe investors will eventually start angling on Bursa. We maintain our RM7.95 TP (25.5x FY22 PE) and BUY rating. We continue to like Bursa as an apolitical election play.

Within expectations. Bursa reported 1QFY22 PATMI of RM68m (+4.6% QoQ, -44% YoY) – this was spot on our estimates (see our [results preview report](#) on 14 Apr), forming 27% of ours and consensus full year forecast.

Dividend. None declared. Dividends are usually declared in 2Q and 4Q.

QoQ. Revenue was flat (-0.3%) as marginal dip in Securities (-3.1%; ADV +2.6% but with two fewer trading days) was offset by increase in Derivatives (+8.5%; ADC +10.1% driven by FCPO), while Others stayed flat (+0.3%). With the slight decline in opex (-3.8%), PATMI inched up +4.6%.

YoY. The -29.4% revenue decline was largely attributed to the steep drop in Securities (-46.7%) as ADV fell -48.8% from a high base SPLY – recall that 1Q21 ADV of RM5.08bn was the second highest quarterly showing in its history, driven by recovery optimism from the initial global vaccine rollout. Marginal increase in Derivatives (+3.4%) and Others (+5.0%) was insufficient to offset Securities' decline at the topline. Coupled with a 4.6% rise in opex, PATMI decreased -44%.

Outlook. YTD ADV of RM2.50bn (up to 27 Apr) is broadly tracking within our FY22 assumption of RM2.48bn. Looking ahead, we see upside potential to ADV in 2H22, fuelled by heightened trading around the impending general election (GE), which we are betting to happen between Aug-Oct (i.e. after the MoU expires but before the East Coast monsoon). Two out of the past three GEs (i.e. GE14-2018 and GE13-2013) had a positive effect on ADV during the election year (YoY increase) and election month (+59-63% MoM surge) – the exception was GE12-2008 due to the onslaught of the GFC. For further insights on our study regarding ADV and elections, please refer to our [report](#) dated 16 Mar. Bursa's market cap (and hence share price) has a strong correlation to its ADV at 79.4% based on monthly data post GFC. We view Bursa as an apolitical election play – it benefits via ADV boost but without the "political linkages" – making it a rather compelling investment proposition. Looking ahead post GE15, we reckon that the market would react positively (alongside rejuvenated ADV) should the election outcome see the victor secure a convincing mandate – a plausible scenario considering the recent state polls in Johor, Melaka and Sarawak.

Forecast. Unchanged as the results were inline. Note that we have not explicitly pencilled in any potential ADV boost from GE15. Should this ADV boost play out as hypothesised, the ADV decline in FY22 should be less profound (we currently project RM2.48bn; -30% YoY).

Maintain BUY, TP: RM7.95. We continue to like Bursa as an apolitical election play, riding on the potential ADV upside. Our RM7.95 TP is based on 25.5x PE (+1.5SD above 5Y mean) tagged to FY22 EPS. We reckon our valuation yardstick isn't excessive considering (i) it is inline with regional peers average of 25.3x and (ii) Bursa's 1Y forward PE hit a high of 27.3x (+2SD) in 2018, i.e. the year of GE14.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1QFY21	4QFY21	1QFY22	QoQ (%)	YoY (%)
Securities	150.9	83.0	80.4	(3.1)	(46.7)
Derivatives	22.6	21.5	23.3	8.5	3.4
Others	54.6	57.1	57.3	0.3	5.0
Revenue	228.0	161.6	161.0	(0.3)	(29.4)
Other income	0.9	0.3	0.7	178.1	(13.3)
Overall topline	228.9	161.9	161.8	(0.0)	(29.3)
Staff cost	(39.1)	(38.9)	(39.3)	0.9	0.4
Operating expense	(25.1)	(30.4)	(26.9)	(11.5)	7.2
EBITDA	164.7	92.6	95.6	3.3	(41.9)
D&A	(5.2)	(6.1)	(6.4)	4.3	23.0
EBIT	159.5	86.5	89.3	3.2	(44.0)
Finance income	3.4	3.3	3.5	5.9	3.0
Finance cost	(0.1)	(0.1)	(0.1)	-	-
PBT	162.8	89.6	92.6	3.3	(43.1)
Taxation	(41.4)	(24.7)	(24.7)	(0.1)	(40.4)
PAT	121.4	65.0	68.0	4.6	(44.0)
MI	-	-	-	-	-
PATMI - core	121.4	65.0	68.0	4.6	(44.0)
EI	-	-	-	-	-
PATMI - reported	121.4	65.0	68.0	4.6	(44.0)
EPS - core	15.0	8.0	8.4	4.6	(44.0)
EBITDA margin (%)	72.2	57.3	59.4	2.1	(12.8)
EBIT margin (%)	70.0	53.5	55.4	1.9	(14.5)
PBT margin (%)	71.4	55.5	57.5	2.0	(13.9)
Net margin (%)	53.2	40.2	42.2	2.0	(11.0)

Company, HLIB estimates

Financial Projections for Bursa Malaysia**Balance Sheet**

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Cash & liquid securities	495.6	519.3	503.8	612.8	571.3
Cash - non group	2,219.9	3,423.3	2,108.2	2,278.1	1,956.5
Quoted shares	139.5	-	-	-	-
PPE & software	197.4	212.7	211.9	208.3	199.2
Others	180.5	186.7	156.5	150.2	161.3
Assets	3,232.9	4,342.0	2,980.4	3,249.4	2,888.3
Payables - non group cash	2,123.6	3,326.7	2,006.5	2,176.4	1,854.9
Other payables	162.4	167.7	101.7	175.7	109.9
Debt	8.0	8.0	8.0	8.0	8.0
Others	38.1	22.5	21.9	21.2	20.6
Liabilities	2,332.1	3,524.9	2,138.0	2,381.3	1,993.3
Shareholder's equity	900.8	817.1	842.4	868.2	895.0
Non controlling interest	-	-	-	-	-
Equity	900.8	817.1	842.4	868.2	895.0

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before tax	506.6	478.4	338.9	347.0	361.0
D&A	21.4	22.0	22.8	23.6	24.1
Changes in working capital	24.6	47.8	(76.0)	80.2	(77.0)
Taxation	(128.9)	(123.2)	(86.8)	(88.8)	(92.4)
Others	(6.5)	(48.4)	-	-	-
CFO	417.2	376.6	199.0	362.0	215.7
Net capex	(11.6)	(34.7)	(22.0)	(20.0)	(15.0)
Others	(78.9)	156.5	86.8	(3.2)	(5.2)
CFI	(90.5)	121.8	64.8	(23.2)	(20.2)
Changes in borrowings	(0.0)	(0.0)	-	-	-
Issuance of shares	3.4	1.8	-	-	-
Dividends paid	(290.4)	(372.2)	(279.4)	(229.6)	(237.1)
Others	61.3	(98.9)	-	-	-
CFF	(225.6)	(469.3)	(279.4)	(229.6)	(237.1)
Net cash flow	101.1	29.1	(15.6)	109.1	(41.5)
Forex	(0.1)	0.1	-	-	-
Others	91.7	(5.4)	-	-	-
Opening balance	302.8	495.6	519.3	503.8	612.8
Closing balance	495.6	519.3	503.8	612.8	571.3

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	778.8	751.6	612.4	629.5	652.3
Other income	5.7	2.8	2.8	2.9	3.0
Staff & operating expense	(270.4)	(266.6)	(265.8)	(273.6)	(281.7)
EBITDA	514.1	487.8	349.5	358.8	373.7
D&A	(21.4)	(22.0)	(22.8)	(23.6)	(24.1)
EBIT	492.7	465.8	326.7	335.2	349.5
Net finance income/ (cost)	13.9	12.6	12.2	11.8	11.5
PBT	506.6	478.4	338.9	347.0	361.0
Taxation	(128.9)	(123.2)	(86.8)	(88.8)	(92.4)
MI	-	-	-	-	-
PATMI (core)	377.7	355.3	252.1	258.2	268.6
HLIB/ consensus			101%	97%	97%
Exceptional items	-	-	-	-	-
PATMI (reported)	377.7	355.3	252.1	258.2	268.6

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	46.7	43.9	31.2	31.9	33.2
P/E (x)	14.9	15.8	22.3	21.8	20.9
EV/EBITDA (x)	9.9	10.5	14.6	14.2	13.7
DPS (sen)	51.0	41.0	28.1	28.7	29.9
Dividend yield	7.3%	5.9%	4.0%	4.1%	4.3%
BVPS (RM)	1.11	1.01	1.04	1.07	1.11
P/B (x)	6.2	6.9	6.7	6.5	6.3
EBITDA margin	66.0%	64.9%	57.1%	57.0%	57.3%
EBIT margin	63.3%	62.0%	53.3%	53.3%	53.6%
PBT margin	65.1%	63.7%	55.3%	55.1%	55.3%
Net margin	48.5%	47.3%	41.2%	41.0%	41.2%
ROE	45.5%	41.4%	30.4%	30.2%	30.5%
ROA	13.6%	9.4%	6.9%	8.3%	8.8%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
ADV - OMT equities	4,210	3,545	2,482	2,680	2,827
ADC - derivatives (no.)	73,523	75,178	81,879	75,212	72,410

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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