

HLIB Research

PP 9484/12/2012 (031413)

Jeremy Goh, CFA
pwgoh@hlib.hongleong.com.my
(603) 2083 1716

SELL (from Buy)

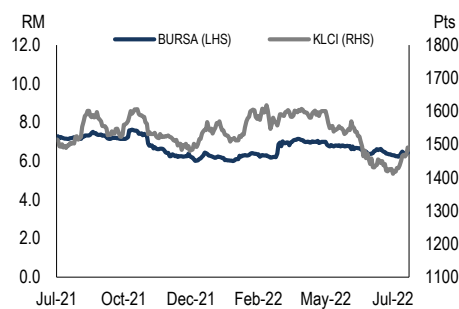
Target Price: RM5.65
Previously: RM7.95
Current Price: RM6.43

Capital upside	-12.1%
Dividend yield	4.0%
Expected total return	-8.1%

Sector coverage: Stock Exchange

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

Share price



	1M	3M	12M
Absolute	-4.3	-10.5	-18.8
Relative	2.7	0.8	-12.6

Stock information

Bloomberg ticker	BURSA MK
Bursa code	1818
Issued shares (m)	809
Market capitalisation (RM m)	5,171
3-mth average volume ('000)	467
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★★

Major shareholders

Capital Market DVLP Fund	18.6%
KWAP	11.0%
EPF	9.7%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	355	228	243
EPS - core (sen)	43.9	28.3	30.1
P/E (x)	14.6	22.8	21.4

Bursa Malaysia

ADV evaporating

Bursa reported 1HFY22 PATMI of RM127m (-39% YoY) which accounted for 51%/53% of ours/consensus full year forecast. While the results were inline, the seemingly dimming ADV outlook – from US recessionary contagion fears and diminishing probability of an early GE15 – prompts us to lower our ADV assumption. Consequently, we cut FY22/23/24 earnings by 9%/6%/9%. With ADV evaporating, Bursa's MC/ADV ratio for Jul has surged to +3.2SD above mean (a 10Y high). Put simply, while ADV has taken a beating, share price has not adequately corrected to reflect this. Downgrade from Buy to SELL with TP of RM5.65 (20x PE tagged to FY22 EPS).

Within expectations. Bursa reported 2QFY22 PATMI of RM59.5m (-12.5% QoQ, -33.2% YoY), bringing 1HFY22's sum to RM127.4m (-39.4% YoY). This accounted for 51%/53% of ours/consensus full year forecast, which is inline.

Dividend. Declared DPS of 15 sen (SPLY: 24 sen).

QoQ. Revenue fell (-7.9%) following the decline in Securities (-17%; ADV -17.9% alongside 2 fewer trading days) but was partially cushioned by a slight increase in Derivatives (+4.6%; ADC at -0.6% but revenue per contract rose +8.8%), while Others stayed flat (-0.1%). Despite a slight cut in opex (-2.5%), cost-to-income ratio (CIR) rose from 44.8% to 47.6%, resulting to PATMI decline of -12.5%.

YoY. -22.8% revenue decline was largely attributed to the steep drop in Securities (-42.1%; ADV -43.2%) but was partially offset by increase in Derivatives (+9.1%; ADC -3.4% but revenue per contract rose +14.8%) and Others (+4.9%). Reduction in opex (-7.8%) was insufficient to offset top-line decline, which led to CIR increasing from 39.7% to 47.6% and a resulting -33.2% drop in PATMI.

YTD. Revenue decreased -26.4%, again attributed to the plunge in Securities (-44.7%; ADV -46.4%) but was partially buffered by improvement in Derivatives (+6.2%; ADC -3.4% but revenue per contract up +10%) and Others (+5%). Given only a slight reduction on opex (-1.9%), CIR surged from 34.6% to 46.2%, causing PATMI to drop -39.4%.

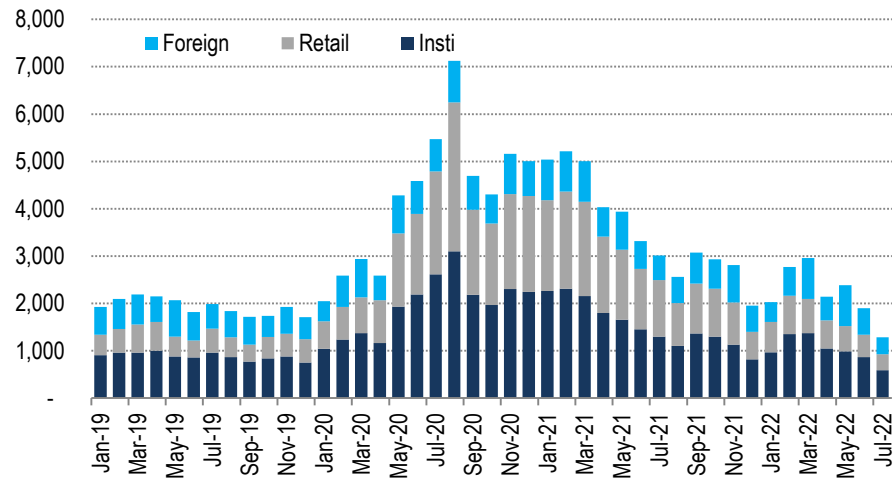
Outlook. Monthly ADV has been down trending since Jun-22 as investors stayed on the side-lines given external woes stemming from aggressive Fed monetary policy tightening, triggering US recession fears and contagion to the rest of the world. Worryingly, MTD-Jul ADV of only RM1.31bn (-31% MoM) is the lowest monthly showing in almost a decade (i.e. since Dec-12). Although we had earlier envisioned an early GE15 providing the much needed reprieve to ADV in 2H22, this possibility seems to be diminishing given recent political news flow. Management is cognisant on the lacklustre ADV climate and assures that it will manage costs prudently.

Forecast. With a dimmer near term ADV outlook, we cut FY22/23/24 ADV assumptions by -17%/-14%/-15% to RM2.06/2.31/2.39bn (YTD: RM2.22bn) and consequently, earnings are lowered by -9.4%/-5.9%/-8.7%.

Downgrade to SELL, TP: RM5.65. Apart from the earnings cut, we also lower our PE target from 25.5x to 20x (5Y mean), resulting to a lower TP of RM5.65 (from RM7.95). With ADV evaporating, Bursa's MC/ADV ratio for Jul has surged to +3.2SD above mean – the highest level seen in the past decade. Put simply, while ADV has taken a beating, we reckon share price has not adequately corrected to reflect this. Downgrade from Buy to SELL.

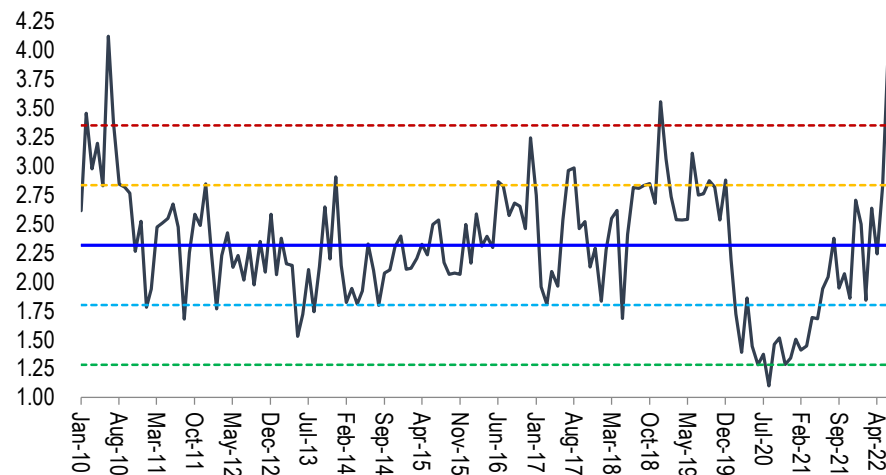
Focus Charts

Figure #1 Monthly ADV trend by investor type (RM m)



Bursa

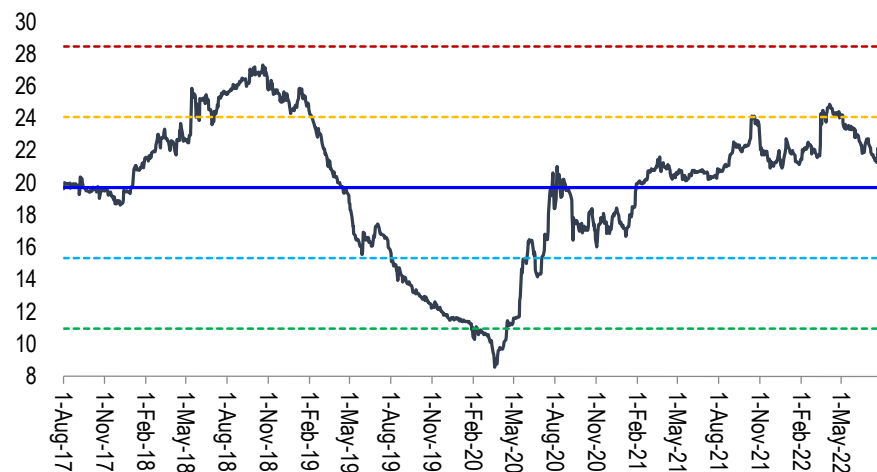
Figure #2 Bursa's monthly MC/ADV ratio



Legend: +2SD, +1SD, MEAN, -1SD, -2SD

Bloomberg, HLIB estimates

Figure #3 Bursa's PE trend (based on 1Y forward EPS)



Legend: +2SD, +1SD, MEAN, -1SD, -2SD

Bloomberg, HLIB estimates

Figure #4 Quarterly results comparison

FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	1HFY21	1HFY22	YoY (%)
Securities	115.3	80.4	66.8	(17.0)	(42.1)	266.1	147.2	(44.7)
Derivatives	22.4	23.3	24.4	4.6	9.1	44.9	47.7	6.2
Others	54.5	57.3	57.2	(0.1)	4.9	109.1	114.5	5.0
Revenue	192.2	161.0	148.4	(7.9)	(22.8)	420.2	309.4	(26.4)
Other income	0.9	0.7	0.1	(89.4)	(91.5)	1.8	0.8	(53.8)
Overall topline	193.1	161.8	148.5	(8.2)	(23.1)	422.0	310.3	(26.5)
Staff cost	(42.9)	(39.3)	(38.7)	(1.4)	(9.7)	(82.0)	(78.0)	(4.9)
Operating expense	(28.5)	(26.9)	(25.7)	(4.5)	(9.9)	(53.6)	(52.5)	(1.9)
EBITDA	121.7	95.6	84.1	(12.1)	(30.9)	286.4	179.7	(37.3)
D&A	(5.3)	(6.4)	(6.3)	(0.9)	18.6	(10.5)	(12.7)	20.7
EBIT	116.4	89.3	77.8	(12.9)	(33.2)	275.9	167.0	(39.5)
Finance income	3.0	3.5	3.4	(2.4)	13.7	6.4	6.9	8.0
Finance cost	(0.1)	(0.1)	(0.1)	0.8	-	(0.3)	(0.3)	-
PBT	119.3	92.6	81.1	(12.5)	(32.0)	282.1	173.7	(38.4)
Taxation	(30.3)	(24.7)	(21.6)	(12.5)	(28.8)	(71.7)	(46.3)	(35.5)
PAT	89.0	68.0	59.5	(12.5)	(33.2)	210.4	127.4	(39.4)
MI	-	-	-	-	-	-	-	-
PATMI - core	89.0	68.0	59.5	(12.5)	(33.2)	210.4	127.4	(39.4)
EI	-	-	-	-	-	-	-	-
PATMI - reported	89.0	68.0	59.5	(12.5)	(33.2)	210.4	127.4	(39.4)
EPS - core	11.0	8.4	7.4			26.0	15.8	
				<i>ppts chg</i>	<i>ppts chg</i>			<i>ppts chg</i>
EBITDA margin (%)	63.3	59.4	56.7	(2.7)	(6.7)	68.2	58.1	(10.1)
EBIT margin (%)	60.6	55.4	52.4	(3.0)	(8.2)	65.7	54.0	(11.7)
PBT margin (%)	62.1	57.5	54.6	(2.9)	(7.4)	67.1	56.1	(11.0)
Net margin (%)	46.3	42.2	40.1	(2.1)	(6.2)	50.1	41.2	(8.9)

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	502.9	609.5	568.9
Cash - non group	2,219.9	3,423.3	1,849.1	2,513.9	1,763.5
Quoted shares	139.5	-	-	-	-
PPE & software	197.4	212.7	211.9	208.3	199.2
Others	180.5	186.7	148.5	153.3	150.9
Assets	3,232.9	4,342.0	2,712.5	3,485.0	2,682.5
Payables - non group cash	2,123.6	3,326.7	1,747.4	2,412.2	1,661.8
Other payables	162.4	167.7	95.2	179.3	103.3
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	1,872.5	2,620.7	1,793.7
Shareholder's equity	900.8	817.1	840.0	864.3	888.8
Non controlling interest	-	-	-	-	-
Equity	900.8	817.1	840.0	864.3	888.8

Cash Flow Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before tax	506.6	478.4	307.9	326.6	329.6
D&A	21.4	22.0	22.8	23.6	24.1
Changes in working capital	24.6	47.8	(74.5)	79.2	(73.7)
Taxation	(128.9)	(123.2)	(79.4)	(83.6)	(84.4)
Others	(6.5)	(48.4)	-	-	-
CFO	417.2	376.6	176.8	345.8	195.6
Net capex	(11.6)	(34.7)	(22.0)	(20.0)	(15.0)
Others	(78.9)	156.5	97.5	(7.1)	(1.5)
CFI	(90.5)	121.8	75.5	(27.1)	(16.5)
Changes in borrowings	(0.0)	(0.0)	-	-	-
Issuance of shares	3.4	1.8	-	-	-
Dividends paid	(290.4)	(372.2)	(268.7)	(212.1)	(219.7)
Others	61.3	(98.9)	-	-	-
CFF	(225.6)	(469.3)	(268.7)	(212.1)	(219.7)
Net cash flow	101.1	29.1	(16.4)	106.6	(40.6)
Forex	(0.1)	0.1	-	-	-
Others	91.7	(5.4)	-	-	-
Opening balance	302.8	495.6	519.3	502.9	609.5
Closing balance	495.6	519.3	502.9	609.5	568.9

Income Statement

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	778.8	751.6	575.9	607.1	619.1
Other income	5.7	2.8	1.9	2.0	2.1
Staff & operating expense	(270.4)	(266.6)	(259.4)	(270.8)	(278.8)
EBITDA	514.1	487.8	318.5	338.3	342.3
D&A	(21.4)	(22.0)	(22.8)	(23.6)	(24.1)
EBIT	492.7	465.8	295.7	314.7	318.2
Net finance income/ (cost)	13.9	12.6	12.2	11.8	11.5
PBT	506.6	478.4	307.9	326.6	329.6
Taxation	(128.9)	(123.2)	(79.4)	(83.6)	(84.4)
MI	-	-	-	-	-
PATMI (core)	377.7	355.3	228.5	243.0	245.2
HLIB/ consensus			95%	95%	91%
Exceptional items	-	-	-	-	-
PATMI (reported)	377.7	355.3	228.5	243.0	245.2

Valuation & Ratios

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	46.7	43.9	28.3	30.1	30.3
P/E (x)	13.8	14.6	22.8	21.4	21.2
EV/EBITDA (x)	9.1	9.6	14.7	13.9	13.7
DPS (sen)	51.0	41.0	25.4	27.0	27.3
Dividend yield	7.9%	6.4%	4.0%	4.2%	4.2%
BVPS (RM)	1.11	1.01	1.04	1.07	1.10
P/B (x)	5.8	6.4	6.2	6.0	5.8
EBITDA margin	66.0%	64.9%	55.3%	55.7%	55.3%
EBIT margin	63.3%	62.0%	51.3%	51.8%	51.4%
PBT margin	65.1%	63.7%	53.5%	53.8%	53.2%
Net margin	48.5%	47.3%	39.7%	40.0%	39.6%
ROE	45.5%	41.4%	27.6%	28.5%	28.0%
ROA	13.6%	9.4%	6.5%	7.8%	8.0%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
ADV - OMT equities	4,210	3,545	2,056	2,313	2,394
ADC - derivatives (no.)	73,523	75,178	77,812	74,782	73,199

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

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.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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