

3 February 2021

Financial Services | Exchanges

Bursa Malaysia (BURSA MK)

Buy (Maintained)

Here Comes The Diamond Hands; Keep BUY

Target Price (Return): MYR10.80 (+16%)
 Price: MYR9.35
 Market Cap: USD1,872m
 Avg Daily Turnover (MYR/USD) 20.4m/4.90m

- **Keep BUY with higher TP MYR10.80 from MYR9.70, 16% upside and c.4% yield.** 4Q20 PATAMI beat expectations – Bursa Malaysia announced total DPS of 34 sen (including 8 sen special DPS). We raise FY21F-22F earnings by 11% and 2% on higher securities average daily value (SADV) assumptions. There were no signs of slowing down in January (SADV: >MYR5bn) and buoyant trading activities this year should be driven by the resurgence in COVID-19 cases and various forms of lockdown (market volatility), and vaccination programme (recovery theme).
- **FY20 beat; special DPS of 8 sen.** BURSA's FY20 PATAMI of MYR378m (+103% YoY) beat our and consensus estimates by 3% and 5%. The strong uplift in bottomline was largely driven by 62% YoY higher operating revenue due to the buoyant trading in both equity and derivatives. The exchange announced total DPS of 34 sen which comprised of 26 sen final DPS and 8 sen special DPS. This implies a 109% payout (or 92% ex-special DPS).
- **4Q20 earnings drivers.** 4Q20 reported PATAMI rose 130% YoY to MYR104.9m but moderated 14% QoQ. We believe BURSA made c.MYR18m one-off provisions during the quarter – c.MYR14m in sales and service tax (digital tax related) and c.MYR4m in professional fees. PATAMI would be around MYR116m (+155% YoY/-5% QoQ) based on our estimate. Operating profit was 4% QoQ on lower trading and clearing due to lower SADV (-14% QoQ). Reported effective clearing rate expanded 0.14bps QoQ to 2.66bps. Reported CIR was higher QoQ at 39.6% as opex jumped 25% QoQ (excluding one-off provisions: flat QoQ).
- **Other highlights.** Opex (ex-one-off provisions) is expected to see a marginal increase in FY21F. Capex is set at MYR40-50m with the bulk (MYR30m) being investment in its IT system. There were more than 400,000 new CDS accounts opened in 2020 (2019: c.160,000); 64% of the new individual CDS accounts opened were by investors aged 26-45 years old. This coincided with the record-high retail investor participation – retail investors contributed 38% of 2020 SADV, up from 25% in 2019. The exchange is not keen on banning regulated short selling (RSS) again.
- **Earnings and TP.** We revise FY21F-22F earnings by 11% and 2% mainly on higher SADV assumptions (c.MYR3.6bn and c.MYR3.3bn). There were no signs of slowing down in January (>MYR5bn SADV) and we expect trading in equity securities to remain buoyant, driven by the resurgence in COVID-19 cases and various forms of lockdown (market volatility), and vaccination program (recovery theme). As such, our TP is now higher at MYR10.80, based on an unchanged P/E of 28x (see page 6 for earnings and TP sensitivity).

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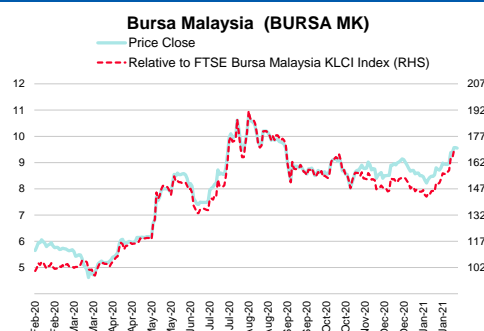


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.7	12.7	19.4	0.6	68.5
Relative	16.4	16.4	12.6	2.9	66.2
52-wk Price low/high (MYR)				4.42	10.6



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: Good

Bursa Malaysia participated in the joint committee on climate change (JC3), an initiative led by the Securities Commission Malaysia (SC) and Bank Negara Malaysia to promote the transition to a low-carbon economy. It has also set up a climate action task force to coordinate efforts to improve its environmental performance and reporting.

S: Good

Bursa Malaysia regularly conducts financial literacy programmes to improve the public's knowledge on the financial market. As the country's sole stock exchange, it acts as a regulator to ensure a fair and orderly market for all participants. In addition, the exchange has also been exerting influence over listed companies to make better disclosures on ESG-related issues.

G: Excellent

10 of the 11 Bursa Malaysia's board members are independent and non-executive. The board also has good mix of gender (36% female) and racial diversity. Management makes timely and transparent disclosures on both financial and corporate governance-related information.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	502	799	697	659	638
Recurring net profit (MYRm)	186	378	311	276	255
Recurring net profit growth (%)	(17.0)	103.2	(17.8)	(11.0)	(7.7)
Recurring P/E (x)	40.62	20.01	24.34	27.36	29.63
P/B (x)	9.9	8.4	8.1	7.9	7.7
P/CF (x)	40.45	18.11	24.09	26.96	28.98
Dividend Yield (%)	2.2	5.5	3.7	3.3	3.0
EV/EBITDA (x)	25.59	13.10	15.80	17.55	18.82
Return on average equity (%)	22.7	45.5	33.9	29.2	26.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.23	0.47	0.38	0.34	0.32
Financial Services	DPS	0.21	0.51	0.35	0.31	0.28
Bursa Malaysia	BVPS	0.94	1.11	1.15	1.19	1.22
BURSA MK	Return on average equity (%)	22.7	45.5	33.9	29.2	26.2
Buy						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
We use P/E to value Bursa Malaysia as share price reacts strongly to short-term earnings /SADV.	Recurring P/E (x)	40.62	20.01	24.34	27.36	29.63
	P/B (x)	9.9	8.4	8.1	7.9	7.7
	FCF Yield (%)	2.2	5.3	3.8	3.4	3.1
	Dividend Yield (%)	2.2	5.5	3.7	3.3	3.0
	EV/EBITDA (x)	25.59	13.10	15.80	17.55	18.82
	EV/EBIT (x)	27.66	13.65	16.64	18.63	20.11
Key drivers	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Our earnings estimates are most sensitive to:	Total turnover	502	799	697	659	638
i. SADV assumptions;	Gross profit	502	799	697	659	638
ii. Clearing fee rate;	EBITDA	277	529	437	392	364
iii. Daily derivative contracts traded.	Depreciation and amortisation	(21)	(21)	(22)	(23)	(23)
	Operating profit	256	507	415	369	341
	Net interest	(1)	(1)	(1)	(1)	(1)
	Pre-tax profit	256	507	414	369	340
	Taxation	(66)	(129)	(104)	(92)	(85)
	Reported net profit	186	378	311	276	255
	Recurring net profit	186	378	311	276	255
Key risks	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key downside risks to our call include:	Change in working capital	(2)	29	(4)	(4)	(2)
i. Lower-than-expected SADV;	Cash flow from operations	187	417	314	280	261
ii. Lower-than-expected clearing rate;	Capex	(20)	(16)	(23)	(23)	(23)
iii. Equity market crash.	Cash flow from investing activities	9	(91)	(19)	(18)	(18)
The converse represents upside risks.	Dividends paid	(178)	(222)	(280)	(249)	(230)
	Cash flow from financing activities	(111)	(73)	(127)	(96)	(77)
	Cash at beginning of period	223	252	439	455	468
	Net change in cash	84	254	168	166	166
	Ending balance cash	307	505	607	621	634
Company Profile	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Bursa Malaysia is an exchange holding company incorporated in 1976 and listed in 2005. One of the largest bourses in ASEAN, Bursa Malaysia helps over 900 companies raise capital across 50 economic activities – whether through the Main Market for established large-cap companies, the ACE Market for emerging companies of all sizes, or the LEAP Market for up-and-coming SME companies.	Total cash and equivalents	262	439	455	468	482
	Tangible fixed assets	175	172	171	171	171
	Total investments	198	196	206	216	226
	Total assets	2,321	3,233	2,967	2,886	2,850
	Total liabilities	1,560	2,332	2,035	1,927	1,865
	Total equity	761	901	932	960	985
	Total liabilities & equity	2,321	3,233	2,967	2,886	2,850
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(8.6)	59.0	(12.8)	(5.4)	(3.2)
	Recurrent EPS growth (%)	(17.2)	103.0	(17.8)	(11.0)	(7.7)
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	55.1	66.2	62.7	59.5	57.1
	Net profit margin (%)	37.0	47.3	44.6	42.0	40.0
	Dividend payout ratio (%)	90.4	109.2	90.0	90.0	90.0
	Capex/sales (%)	4.0	2.0	3.3	3.5	3.6
	Interest cover (x)	480	943	754	671	620

Source: Company data, RHB

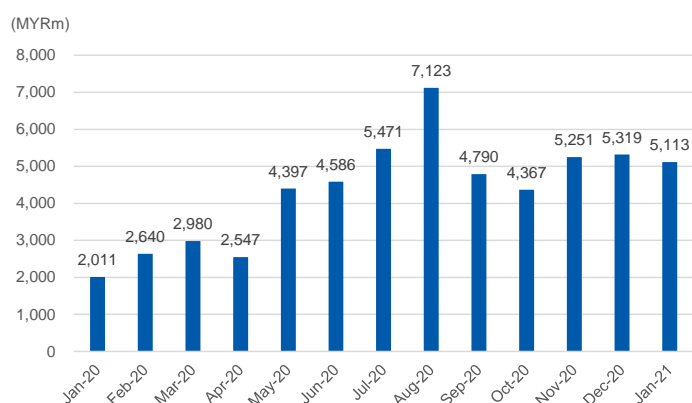
Results At a Glance

Figure 1: BURSA – 4Q20 and FY20 results summary

FYE Dec (MYRm)	4Q19	3Q20	4Q20	YoY %	QoQ %	YTD19	YTD20	YoY %	Comments – 4Q20 vs 3Q20
Operating revenue	122.7	233.3	224.8	83.3	(3.6)	480.1	778.8	62.2	
- Securities trading	59.2	161.0	149.7	152.9	(7.0)	232.8	498.9	114.3	Lower QoQ on lower SADV.
- Derivatives trading	20.5	21.2	21.9	6.4	2.9	72.3	91.1	26.0	
- BSAS	2.9	3.3	3.5	20.8	4.1	14.0	13.1	(6.5)	
- Stable revenue	40.1	47.7	49.8	24.3	4.5	161.0	175.7	9.1	
Other income	6.7	4.5	5.9	(11.6)	31.8	22.4	20.2	(9.8)	
Total revenue	129.3	237.7	230.7	78.4	(3.0)	502.5	799.0	59.0	
Operating expenses	(65.9)	(73.3)	(91.4)	38.7	24.7	(246.2)	(291.8)	18.5	Higher QoQ on c.MYR18m one-off expenses.
EBIT	63.4	164.4	139.3	119.6	(15.3)	256.3	507.2	97.9	
<i>EBITDA</i>	68.8	169.8	144.5	109.9	(14.9)	277.1	528.6	90.8	
Interest expenses	(0.1)	(0.1)	(0.1)	0.8	(2.2)	(0.5)	(0.5)	0.7	
Other income/(expenses)	0.0	0.0	0.0			0.0	0.0		
PBT	63.3	164.3	139.2	119.8	(15.3)	255.8	506.6	98.1	
Tax expense	(17.7)	(42.4)	(34.3)	93.4	(19.0)	(66.2)	(128.9)	94.7	
- ETR (%)	28.0%	25.8%	24.7%			25.9%	25.4%		
PAT	45.6	121.9	104.9	130.2	(14.0)	189.6	377.7	99.3	
Minority interest	0.0	0.0	0.0			(3.7)	0.0		
PATAMI	45.6	121.9	104.9	130.2	(14.0)	185.9	377.7	103.2	Estimated PATAMI (ex-one-off expenses) c.MYR116m
Other key data and ratios									
SADV (MYRm)	2,050	5,800	4,980	142.9	(14.1)	2,150	4,310	100.5	
Velocity (%) - reported	26	85	69			28	64		
Effective clearing rate (bps) -reported	2.57	2.52	2.66			2.47	2.60		
Trading days	64	62	64			244	248		
Period-end KLCI (ppts)	1,589	1,505	1,627			1,589	1,627		
Period-end market capitalisation (MYRbn)	1,712	1,639	1,817	6.1	10.9	1,712	1,817	6.1	
Average daily no of contracts - derivatives	63,044	69,395	70,980	12.6	2.3	55,372	73,523	32.8	
Number of IPOs	7	6	6			30	19		

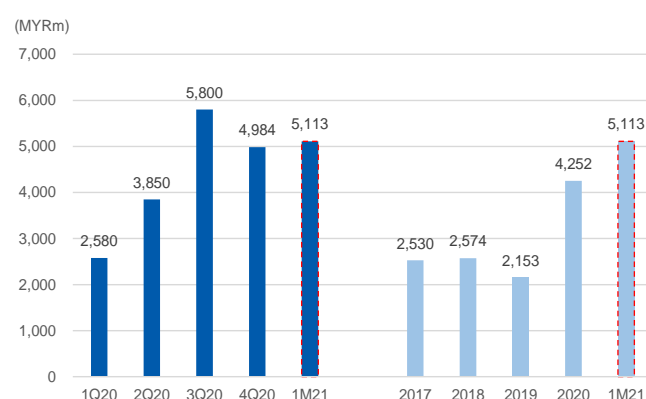
Source: Company data, RHB

Figure 2: Monthly SADV trend



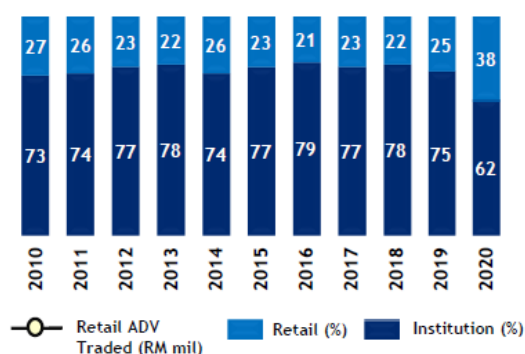
Source: Company data, RHB

Figure 3: Quarterly and yearly SADV trend



Source: Company data, RHB

Figure 4: Market participants mix



Source: Company data, RHB

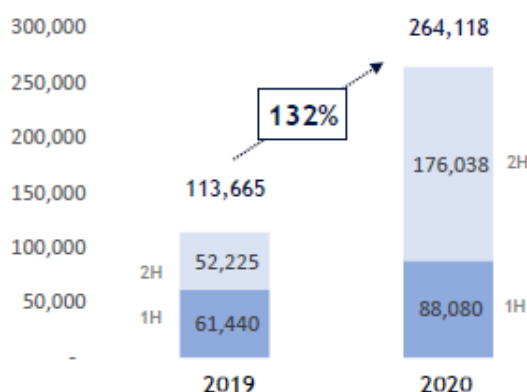
Figure 5: Top 10 total net short positions at 29 Jan 2021

Company	Total net short positions (volume)	Percentage of total net short positions
Top Glove	241,895,602	2.95
Kossan	55,609,863	2.18
Hartalega	47,326,223	1.39
Serba Dinamik	36,911,080	1.09
Maxis	75,274,276	0.97
Insas	6,358,500	0.92
AirAsia	23,753,579	0.72
Mah Sing	17,199,264	0.71
Supermax	16,522,402	0.61
Hibiscus	8,873,203	0.52

Source: Company data, RHB

Figure 6: New individual CDS accounts

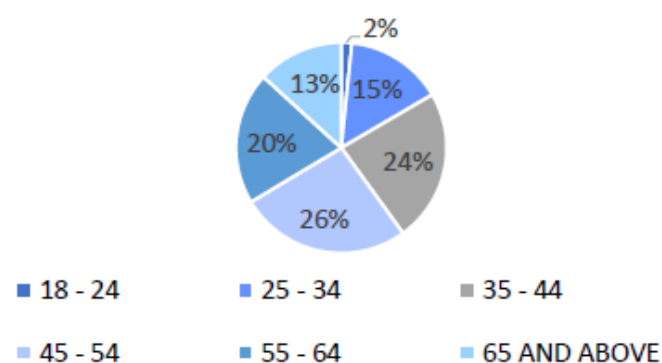
64% of new individual accounts opened in 2020 were investors aged 26 - 45 years old



Source: Company data, RHB

Figure 7: Retail SADV contribution by age

Investors aged between 35 - 54 years old were the largest contributor to Retail ADV



Source: Company data, RHB

Revisions in earnings forecasts

We revise our FY21F-22F earnings upward by c.11% and 2%, mainly on a higher SADV assumption of c.MYR3,600m and c.MYR3,300m from MYR3,200m and MYR3,100m. We also introduce FY23 forecast.

Figure 8: Revisions in earnings forecasts

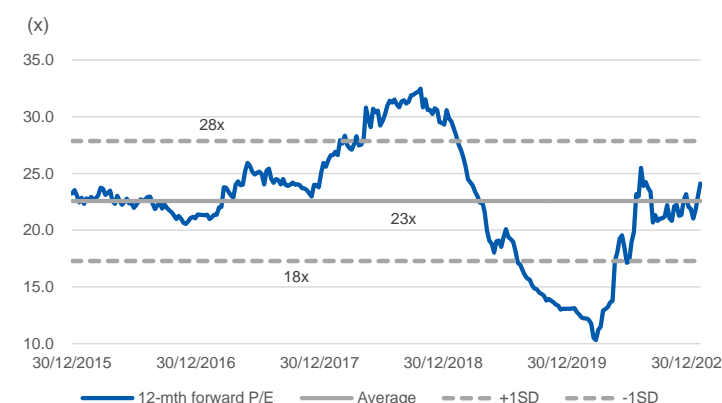
FYE Dec	Net profit (MYRm)			EPS (MYR)			DPS (MYR)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	279	311	11.3	0.35	0.38	11.2	0.31	0.35	11.2
2022F	271	276	2.0	0.34	0.34	1.9	0.30	0.31	1.9
2023F	n.a.	255	n.m.	n.a.	0.32	n.m.	n.a.	0.28	n.m.

Source: Company Data, RHB

Valuations and TP

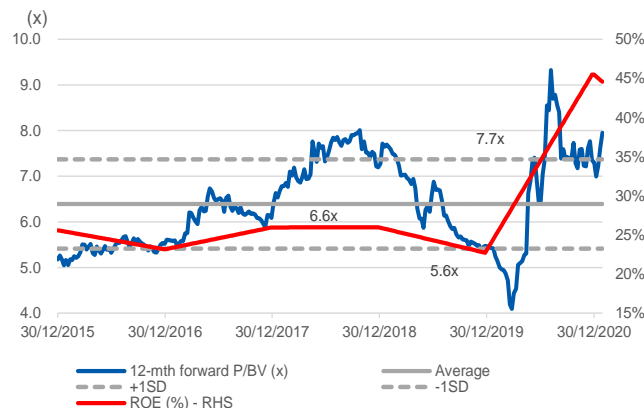
We raise our TP to MYR10.80 from MYR9.70 post 4Q20 results due to the upward earnings revisions. We peg Bursa's FY21F EPS to 28x P/E (unchanged), which is +1SD from its historical mean.

Figure 9: BURSA's 12-month forward P/E



Source: Bloomberg, RHB

Figure 10: BURSA's 12-month forward P/BV



Source: Bloomberg, RHB

Figure 11: BURSA's FY21F earnings sensitivity

		Daily derivative contract (number of contracts)								
		50,000	55,000	60,000	65,000	69,165	75,000	80,000	85,000	90,000
SADV (MYRm)	2,800	229.8	233.8	237.9	242.0	245.3	250.1	254.1	258.2	262.3
	3,000	245.5	249.6	253.7	257.7	261.1	265.8	269.9	273.9	278.0
	3,200	261.3	265.4	269.4	273.5	276.9	281.6	285.6	289.7	293.8
	3,400	277.0	281.1	285.2	289.2	292.6	297.3	301.4	305.5	309.5
	3,629	295.1	299.1	303.2	307.3	310.6	315.4	319.4	323.5	327.6
	3,800	308.6	312.6	316.7	320.7	324.1	328.9	332.9	337.0	341.0
	4,000	324.3	328.4	332.4	336.5	339.9	344.6	348.7	352.7	356.8
	4,200	340.1	344.1	348.2	352.3	355.6	360.4	364.4	368.5	372.5
	4,400	355.8	359.9	363.9	368.0	371.4	376.1	380.2	384.2	388.3

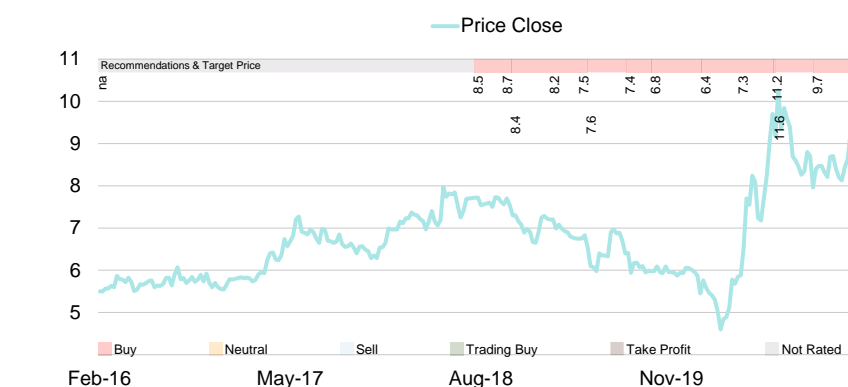
Source: Company data, RHB

Figure 12: BURSA's TP sensitivity

		Daily derivative contract (number of contracts)								
		50,000	55,000	60,000	65,000	69,165	75,000	80,000	85,000	90,000
SADV (MYRm)	2,800	8.00	8.10	8.30	8.40	8.50	8.70	8.80	9.00	9.10
	3,000	8.50	8.70	8.80	9.00	9.10	9.20	9.40	9.50	9.70
	3,200	9.10	9.20	9.40	9.50	9.60	9.80	9.90	10.10	10.20
	3,400	9.60	9.80	9.90	10.00	10.20	10.30	10.50	10.60	10.80
	3,629	10.30	10.40	10.50	10.70	10.80	11.00	11.10	11.20	11.40
	3,800	10.70	10.90	11.00	11.10	11.30	11.40	11.60	11.70	11.80
	4,000	11.30	11.40	11.60	11.70	11.80	12.00	12.10	12.30	12.40
	4,200	11.80	12.00	12.10	12.20	12.40	12.50	12.70	12.80	12.90
	4,400	12.40	12.50	12.60	12.80	12.90	13.10	13.20	13.40	13.50

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-10-28	Buy	9.7	8.4
2020-07-28	Buy	11.6	10.0
2020-07-22	Buy	11.2	9.7
2020-04-30	Buy	7.3	6.0
2020-01-31	Buy	6.4	5.6
2019-10-02	Buy	6.8	6.1
2019-08-02	Buy	7.4	6.5
2019-04-30	Buy	7.6	6.8
2019-04-12	Buy	7.5	6.9
2019-01-31	Buy	8.2	7.3
2018-10-29	Buy	8.4	7.6
2018-10-10	Buy	8.7	7.7

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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