

COMPANY UPDATE

Bursa Malaysia (BURSA MK)

Robust Trading Volumes to Persist; Upgrade To BUY

Bursa is expected to deliver another set of above-consensus earnings in 4Q20. Ample domestic liquidity, unprecedented market volatility and broader economic reopening remaining intact should help sustain ADV at robust levels. As share price has retraced from its recent peak of close to RM9.00, upgrade to BUY. Valuation remains attractive at -1SD to its 10-year mean PE. Upgrade to BUY but maintain target price of RM9.10.

WHATS NEW

- **Expect another set of above-consensus earnings in 4Q20.** We expect Bursa Malaysia (Bursa) to deliver another set of above-consensus earnings in 4Q20. The average daily trading value (ADV) of RM4.9b (+175% yoy) in 4Q20 continued to surpass expectations, bringing 2020 ADV to RM4.2b vs our initial estimate of RM3.7b. As such, we are now expecting Bursa to register 2020 net profit of RM371m vs our initial RM334m estimate (consensus: RM350m).
- **CASA growth remained robust post-automatic loan moratorium.** Despite the automatic loan moratorium ending on 30 Sep 20, the banking system's CASA growth has remained strong at an average 22% yoy in Oct-Nov 20. Taking a deeper dive into deposit growth by segment, we note that retail deposits drove system deposits and had continued to clock in a healthy growth of over 7% yoy in Oct-Nov 20 while business deposit growth was flat.
- **Reimplementation of MCO and ample system liquidity to benefit Bursa.** The resumption of the Movement Control Order (MCO) in key states which encompasses a stricter work-from-home (WFH) directive should, in our view, help to underpin healthy retail deposit growth as household expenditure should decline. But this would be partially offset by a more challenging business environment. As such, we think Bursa will continue to be a key beneficiary of ample system liquidity and a low interest rate environment. The reimplementation of the MCO and its impact on the economy could keep interest rate low for an extended period which should help underpin the current robust retail participation in the equity markets well into 2021.

KEY FINANCIALS

| Year to 31 Dec (RMm) | 2018 | 2019 | 2020F | 2021F | 2022F |
|-------------------------------|--------|--------|--------|--------|--------|
| Net turnover | 550 | 502 | 758 | 695 | 602 |
| EBITDA | 331 | 277 | 527 | 457 | 352 |
| Operating profit | 309 | 256 | 508 | 439 | 334 |
| Net profit (rep./act.) | 224 | 186 | 371 | 321 | 245 |
| Net profit (adj.) | 224 | 189 | 371 | 321 | 245 |
| EPS (sen) | 27.7 | 23.4 | 45.9 | 39.7 | 30.2 |
| PE (x) | 29.8 | 35.3 | 18.0 | 20.8 | 27.3 |
| P/B (x) | 7.6 | 8.8 | 8.6 | 8.4 | 8.3 |
| EV/EBITDA (x) | 19.4 | 23.1 | 12.2 | 14.0 | 18.2 |
| Dividend yield (%) | 4.1 | 2.5 | 5.3 | 4.6 | 3.5 |
| Net margin (%) | 40.7 | 37.0 | 49.0 | 46.2 | 40.6 |
| Net debt/(cash) to equity (%) | (24.5) | (32.0) | (33.0) | (36.2) | (38.2) |
| Interest cover (x) | 619.2 | 518.9 | n.a. | n.a. | n.a. |
| ROE (%) | 26.0 | 22.7 | 48.2 | 40.8 | 30.5 |
| Consensus net profit | - | - | 351 | 283 | 264 |
| UOBKH/Consensus (x) | - | - | 1.06 | 1.14 | 0.93 |

Source: Bursa, Bloomberg, UOB Kay Hian

BUY (Upgraded)

| | |
|--------------|--------|
| Share Price | RM8.27 |
| Target Price | RM9.10 |
| Upside | +9.9% |

COMPANY DESCRIPTION

Bursa is a fully integrated stock exchange offering a wide range of exchange-related services. It also offers information services related to the Malaysia securities market.

STOCK DATA

| | |
|---------------------------------|------------|
| GICS sector | Financials |
| Bloomberg ticker: | BURSA MK |
| Shares issued (m): | 809.0 |
| Market cap (RMm): | 6,690.7 |
| Market cap (US\$m): | 1,654.8 |
| 3-mth avg daily t'over (US\$m): | 4.7 |

Price Performance (%)

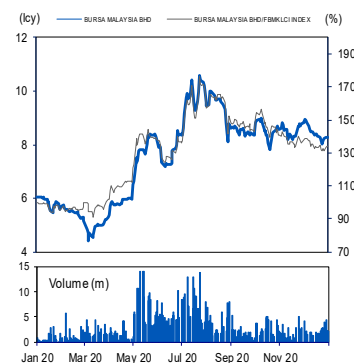
| | | | | |
|------------------|----------------|-------------|------------|------------|
| 52-week high/low | RM10.60/RM4.42 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (5.9) | (1.2) | (1.0) | 35.4 | (0.4) |

Major Shareholders

| | |
|---------------------------------|------|
| Capital Market Development Fund | 18.6 |
| Kumpulan Wang Persaraan | 11.2 |
| EPF | 6.8 |

| | |
|--------------------------|------|
| FY21 NAV/Share (RM) | 0.98 |
| FY21 Net Cash/Share (RM) | 0.36 |

PRICE CHART



Source: Bloomberg

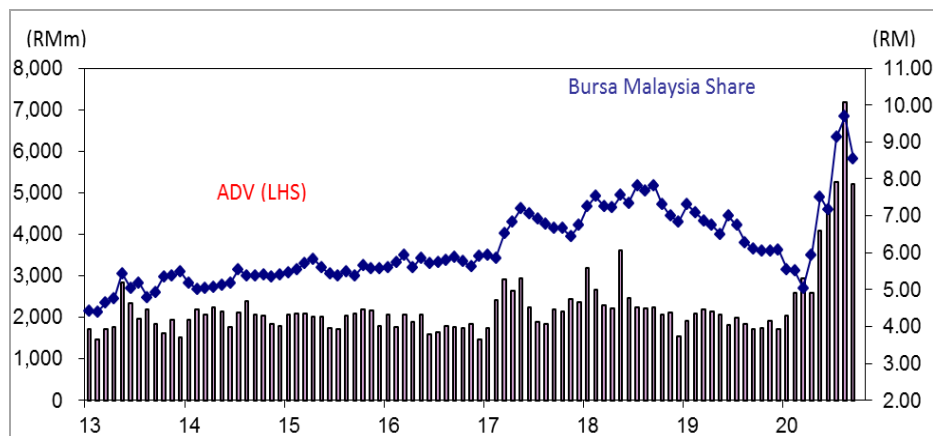
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STOCK IMPACT

- **Any short-term weakness presents good trading opportunities.** The declaration of a state of emergency to combat the COVID-19 virus may lead to a temporary but slight pullback in market ADV. However, as the broader reopening theme remains intact with the impending COVID-19 vaccine rollout, we believe any weakness in share price presents excellent buying opportunities as Bursa should continue to benefit from the unprecedented market volatility, a low interest rate environment and ample system liquidity.
- **We raise our ADV assumptions for 2021-22.** Apart from incorporating the higher actual market ADV of RM4.2b into our earnings forecast for 2020, we also raise our ADV assumptions for 2021-22 to RM3.7b and RM2.5b respectively (from RM2.8b and RM2.2b).
- **Current valuation at only -1SD to 10-year mean.** Bursa is currently trading at 1SD or 20.7x 2021F PE vs its 10-year historical mean of 24.5x. We think this provides adequate buffer to 2021 ADV moderating sharper than expected on a high base. We note that Bursa had traded at a peak valuation of +2SD to its mean PE during previous ADV upcycles. As such, we opine the risk-reward balance at current valuation is relatively attractive as ADV has continued to surprise on the upside.

BURSA: SHARE PRICE VS ADV



Source: Bloomberg, UOB Kay Hian

EARNINGS REVISION/RISK

- Factoring in higher ADV assumptions, we raise our 2020-22 net profit forecasts by 10.4%, 14.1% and 4.2% respectively.

VALUATION/RECOMMENDATION

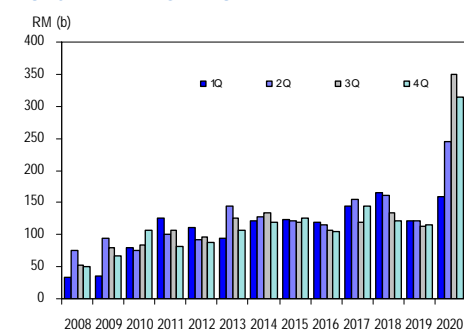
- **Upgrade to BUY but maintain target price of RM9.10.** As share price has corrected from its recent peak of close to RM9.00, we upgrade the stock to BUY. Ample domestic liquidity, unprecedented market volatility and a broader economic reopening remaining intact should help sustain market ADV at robust levels. However, despite our higher earnings forecasts, our target price remains unchanged at RM9.10, which implies 22.9x 2021F PE or -0.5SD to its historical mean. This essentially factors in expectations that ADV is still expected to moderate slightly from an exceedingly high base in 2020.

BURSA: PE BAND



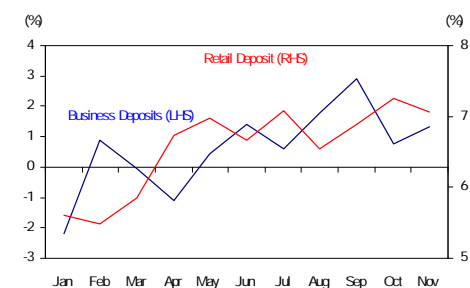
Source: Bursa, UOB Kay Hian

BURSA: TRADING VALUE



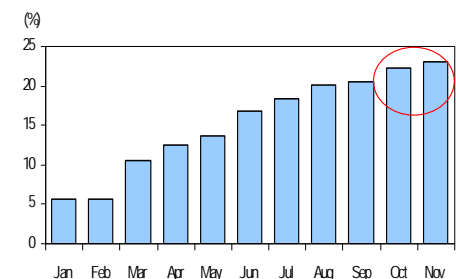
Source: Bursa, UOB Kay Hian

RETAIL VS BUSINESS DEPOSIT GROWTH



Source: BNM, UOB Kay Hian

CASA GROWTH REMAINS ROBUST



Source: BNM, UOB Kay Hian

KEY ASSUMPTIONS

| | 2020F | 2021F | 2022F |
|---------------------------------------|-------|-------|-------|
| Average Daily Value of Equities (RMb) | 4.20 | 3.70 | 2.50 |
| Futures Contract (m) | 11.8 | 12.7 | 13.1 |
| Dividend payout ratio (%) | 95.0 | 95.0 | 95.0 |

Source: UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (RMm) | 2019 | 2020F | 2021F | 2022F |
|-------------------------------|------|-------|-------|-------|
| Net turnover | 502 | 758 | 695 | 602 |
| EBITDA | 277 | 527 | 457 | 352 |
| Deprec. & amort. | 21 | 19 | 18 | 18 |
| EBIT | 256 | 508 | 439 | 334 |
| Net interest income/(expense) | (1) | 0 | 0 | 0 |
| Pre-tax profit | 256 | 508 | 439 | 334 |
| Tax | (66) | (132) | (114) | (87) |
| Minorities | (4) | (5) | (4) | (3) |
| Net profit | 186 | 371 | 321 | 245 |
| Net profit (adj.) | 189 | 371 | 321 | 245 |

CASH FLOW

| Year to 31 Dec (RMm) | 2019 | 2020F | 2021F | 2022F |
|----------------------------------|-------|-------|-------|-------|
| Operating | 187 | 452 | 385 | 301 |
| Pre-tax profit | 190 | 377 | 325 | 248 |
| Deprec. & amort. | 21 | 19 | 18 | 18 |
| Working capital changes | (2) | 13 | 14 | 15 |
| Non-cash items | (22) | 43 | 28 | 21 |
| Investing | 9 | (20) | (50) | (50) |
| Capex (maintenance) | (40) | (20) | (50) | (50) |
| Investments | (149) | 0 | 0 | 0 |
| Others | 198 | 0 | 0 | 0 |
| Financing | (178) | (353) | (305) | (232) |
| Dividend payments | (178) | (353) | (305) | (232) |
| Issue of shares | 0 | 0 | 0 | 0 |
| Loan repayment | 0 | (1) | 0 | 0 |
| Others/interest paid | 0 | 0 | 0 | 0 |
| Net cash inflow (outflow) | 18 | 78 | 30 | 19 |
| Beginning cash & cash equivalent | 168 | 186 | 264 | 295 |
| Ending cash & cash equivalent | 186 | 264 | 294 | 314 |

BALANCE SHEET

| Year to 31 Dec (RMm) | 2019 | 2020F | 2021F | 2022F |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Fixed assets | 207 | 276 | 277 | 278 |
| Other LT assets | 260 | 280 | 342 | 404 |
| Cash/ST investment | 252 | 264 | 295 | 316 |
| Other current assets | 1,602 | 2,357 | 2,153 | 1,800 |
| Total assets | 2,321 | 3,177 | 3,067 | 2,798 |
| ST debt | 1 | 0 | 0 | 0 |
| Other current liabilities | 1,530 | 2,320 | 2,162 | 1,857 |
| LT debt | 7 | 7 | 7 | 7 |
| Other LT liabilities | 22 | 65 | 93 | 113 |
| Shareholders' equity | 761 | 779 | 795 | 808 |
| Minority interest | 0 | 5 | 9 | 13 |
| Total liabilities & equity | 2,321 | 3,177 | 3,067 | 2,798 |

KEY METRICS

| Year to 31 Dec (%) | 2019 | 2020F | 2021F | 2022F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 55.1 | 69.5 | 65.7 | 58.5 |
| Pre-tax margin | 50.9 | 67.0 | 63.1 | 55.5 |
| Net margin | 37.0 | 49.0 | 46.2 | 40.6 |
| ROA | 7.8 | 13.5 | 10.3 | 8.3 |
| ROE | 22.7 | 48.2 | 40.8 | 30.5 |
| Growth | | | | |
| Turnover | (8.6) | 50.8 | (8.2) | (13.4) |
| EBITDA | (16.2) | 90.2 | (13.3) | (22.9) |
| Pre-tax profit | (17.0) | 98.6 | (13.6) | (23.9) |
| Net profit | (17.0) | 99.8 | (13.5) | (23.9) |
| Net profit (adj.) | (15.6) | 96.3 | (13.5) | (23.9) |
| EPS | (15.7) | 96.3 | (13.5) | (23.9) |
| Leverage | | | | |
| Debt to total capital | 1.0 | 0.9 | 0.9 | 0.9 |
| Debt to equity | 1.0 | 1.0 | 0.9 | 0.9 |
| Net debt/(cash) to equity | (32.0) | (33.0) | (36.2) | (38.2) |
| Interest cover (x) | 518.9 | n.a. | n.a. | n.a. |

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