

NAGA Warrants 2017 Fourth Issuance

Sentiment more upbeat post 1Q17 reporting season

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Sentiment has been more upbeat post the recently concluded 1Q17 reporting season, as seen by the FBMKLCI's ascent to a fresh two-year high this week. Although the corporate earnings season continued to show overall signs of improvement, we note that the momentum of improving trends has been visible slower from the previous quarter (4Q16). Out of 137 stocks under our core coverage, 31 stocks (22.6%) delivered earnings, which were below expectations in contrast to the broader 4Q16's 34.4%. On the flipside, only 19 stocks (or 13.4%) performed better-than-expected in comparison to the 34 stocks in 4Q16 (25.4%).

While we see higher upside from here, the risk-to-reward ratio may not be attractive at this juncture as we are cognizant of two potential risk factors; namely (i) weaker sentiment, and (ii) tougher quarter ahead. Hence, we prefer to "Buy On Weakness" (B.O.W.), if and when the FBMKLCI dips below the 1,735- level. At the same time, (i) laggards and (ii) defensive plays could be our themes for now. That being said, we also see the potential for some trading themes developing in the near term, some sectors of which are featured in today's batch of Naga Warrant issuance.

Today, Equity Derivatives will be listing 12 Structured Warrants comprising of AIRASIAC57 (strike: RM3.20), AAX-C9 (strike: RM0.45), BAUTO-CS (strike: RM2.10), EKOVEST-CB (strike: RM1.40), FGV-C29 (strike: RM2.10), GTRONIC-CK (strike: RM6.00), JTIASA-CO (strike: RM1.20), KSL-CH (strike: RM1.30), SKPRES-CF (strike: RM1.40), SUNCON-CK (strike: RM2.20), UNISEM-CY (strike: RM4.00) and WCEHB-CB (strike: RM1.70).

Structured Warrants Commentary

Within this batch of Naga Warrant issuance, we like airline companies **AIRASIAC57**, and **AAX-C9** which should benefit from a weak oil price environment. We remain positive on **AIRASIA (OP, TP: RM3.82)** on the back of its capacity expansion in FY17 and targeted increase in aircraft utilisation rates from 12.5 hours to 14 hours. Meanwhile, we currently have a Trading Buy call on **AAX (TB, TP: RM0.49)**, in-line with the consensus target price of RM0.50.

We also like the technology sector, of which **GTRONIC-CK**, **SKPRES-CF**, **UNISEM-CY** fall under. The overall industry continued to show improvement as the global semiconductor sales in February 2017 increased by 16.5%, marking the seventh consecutive YoY growth which is also the largest YoY growth since November 2010. Meanwhile, our channel checks also revealed that the equipment manufacturers are seeing higher demand from their end-customers. Taking these as positive signs, we believe the spill-over effect will also be reflected in the Malaysian back-end Semiconductor players.

In fact, **UNISEM's (MP; TP: RM3.55)** management is guiding for stronger sequential growth which we believe is highly possible; to be supported by the potential volume ramp up for wCSP amidst the launching of new flagship smartphones in 2H17. **As for EMS players** such as **SKPRES (MP; TP: RM1.40)**, medium-term prospects are still bright underpinned by contracts that have been/are being awarded by major customers.

Although we have been more conservative with regards to the construction sector (Neutral), we anticipate newsflow or contract awards from LRT3 to the tune of RM9.0b to be dished out over the coming 1-2 months. At the same time, market talk is that the ECRL contract award may be expedited to Sept/Oct, far earlier than our expected timeline of 1H18. Should these materialise, we see the potential for spillover effects towards **EKOVEST-CB**, **SUNCON-CK** and **WCEHB-CB**.

These 12 structured warrants are priced with a range of +/-14% moneyness. All the warrants issued are European Styled Non-Collateralised Cash Settled Warrants with a tenure of 7 months. The gearing ranges from as low as 2.8x to as high as 7.8x and the conversion premium ranges from 12.3% to 39.6%. Call-warrants are leveraged instruments.

For instance, by participating in GTRONIC-CK, an investor is exposed to a gearing of 6.3x. To be more precise, this call warrant offers up to 3.5x effective gearing for investors. We are projecting a short-term technical target price of RM6.91 for GTRONIC. This implies a potential upside objective of 13.7% based on a closing price of RM6.08. Theoretically speaking, a 13.7% increase in the underlying price to RM6.91 should translate to ~48% gain in GTRONIC-CK. This general estimate is applicable to other Naga Warrants as well.

Table 1: Warrant Parameters

Name	Time to Expiry	Spot Price (RM)	% of Spot Price	Exercise Price (RM)	Exercise Ratio	Warrant Price (RM)	Gearing (x)	Effective Gearing (x)	Conversion Premium
AIRASIAC57	7 months	3.25	98.5%	3.20	3.0	0.15	7.22	4.40	12.3%
AAX-C9	7 months	0.54	84.1%	0.45	1.5	0.15	2.38	1.78	26.2%
BAUTO-CS	7 months	2.05	102.4%	2.10	2.0	0.15	6.83	3.91	17.1%
EKOVEST-CB	7 months	1.24	112.9%	1.40	2.0	0.15	4.13	2.42	37.1%
FGV-C29	7 months	1.93	108.8%	2.10	2.5	0.15	5.15	2.91	28.2%
GTRONIC-CK	7 months	5.70	105.3%	6.00	6.0	0.15	6.33	3.54	21.1%

Table 1: Continued

Name	Time to Expiry	Spot Price (RM)	% of Spot Price	Exercise Price (RM)	Exercise Ratio	Warrant Price (RM)	Gearing (x)	Effective Gearing (x)	Conversion Premium
JTIASA-CO	7 months	1.13	106.2%	1.20	2.0	0.15	3.77	2.33	32.7%
KSL-CH	7 months	1.20	108.3%	1.30	2.5	0.15	3.20	2.05	39.6%
SKPRES-CF	7 months	1.31	106.9%	1.40	2.0	0.15	4.37	2.60	29.8%
SUNCON-CK	7 months	2.06	106.8%	2.20	2.0	0.15	6.87	3.71	21.4%
UNISEM-CY	7 months	3.51	114.0%	4.00	3.0	0.15	7.80	3.79	26.8%
WCEHB-CB	7 months	1.55	109.7%	1.70	2.0	0.15	5.17	2.90	29.0%

* Note that the share prices are on a closing basis. Data is as at EOD.

Daily Charting – Airasia X Berhad (AAX)



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Daily Charting – Felda Global Ventures Holdings Bhd (FGV)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Felda Global Venture Holdings Bhd
 Bursa Code : FGV

Key Resistance and Support Levels

R2 : RM 1.79 (50% Fib retracement)
 R1 : RM 1.70 (61.8% Fib retracement)
 Closing : RM 1.66
 S1: : RM 1.51 (Trend-line support)
 S2: : RM 1.47 (December low)

Theoretical Warrants Price (FGV-C29)

TWR 2 : RM0.12
 TWR 1 : RM0.10
 - : -
 TWS 1 : RM0.055
 TWS 2 : RM0.045

FGV has been trading within a “Symmetrical Triangle”-like pattern since June last year, characterised by two converging trend-lines over this year-long period. Recent bout of negative press has resulted in the share price testing its triangle support line. However, some bargain hunting activities have emerged at the RM1.51-1.60 (S1) level, while the RSI looks to be at an inflection point having retreated to the lowest level since November. Should the share price manage to rebound from here, immediate resistance levels to target are RM1.70 (R1) and 1.79 (R2). Meanwhile, downside support levels include the aforementioned RM1.51 (S1), failing which the RM1.42-1.47 (S2) cluster is located just below.

Daily Charting – Globetronics Technology Berhad (GTRONIC)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Globetronics Technology Berhad
 Bursa Code : GTRONIC

Key Resistance and Support Levels

R2 : RM 7.90 (123.6% Fib projection)
 R1 : RM 6.91 (January 2016 high)
 Closing : RM 6.08
 S1: : RM 5.65 (Trend-line support)
 S2: : RM 5.33 (Resist-turned-support)

Theoretical Warrants Price (GTRONIC-CK)

TWR 2 : RM0.32
 TWR 1 : RM0.24
 - : -
 TWS 1 : RM0.145
 TWS 2 : RM0.12

GTRONIC's share price has been on a steady climb since its RM2.75 lows last August. Currently, the GTRONIC's short-longer term trend remains positive, with the key SMAs (20-, 50- and 100-day) on an upwards trajectory. More recently this week, the share price broke out of its mild downward consolidation and is now at the highest level since February last year. At the same time, the MACD and RSI have both hooked upwards to reflect this shift in short term momentum from bearish to bullish. Hence, traders may look forward to a retest of the RM6.91 (R1) January 2016 high. Should this level be taken out next, GTRONIC would then have a clear path towards RM7.90 (R2) further up. Any return to the trend-line at RM5.65 (S1) may be viewed as a buying opportunity.

Daily Charting – Sunway Construction Group Bhd (SUNCON)



Technical Ratings

Name : Sunway Construction Group Bhd
 Bursa Code : SUNCON

Key Resistance and Support Levels

R2 : RM 2.30 (123.6% Fib Extension)
 R1 : RM 2.15 (May High)
 Closing : RM 2.07
 S1: : RM 2.00 (Consolidation support)
 S2: : RM 1.85 (Channel resst-turned-support)

Theoretical Warrants Price (SUNCON-CK)

TWR 2 : RM0.215
 TWR 1 : RM0.175
 - : -
 TWS 1 : RM0.135
 TWS 2 : RM0.095

Until recently, SUNCON's share price had been trading within a modest uptrend channel for an entire year. Nevertheless, the share price finally broke out of the channel resistance at RM1.85 (April), and subsequently rallied to as high as RM2.15 a month later. Recent weeks has seen the share price consolidating sideways. However, with the short-longer term uptrend intact and the momentum indicators mostly bullish, we expect this consolidation phase to represent a mere pause before the next move higher, Traders should monitor the stock for a consolidation breakout at RM2.15 (R1) as a definitive signal to buy. Should this be the case, further gains would then be expected towards RM2.30 (R2) next. Downside appears limited with strong support present at RM2.00-2.05 (S1), failing which RM1.85 (S2) should see more bargain hunting.

Source: Bloomberg, Kenanga Research

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08 June 2017

Glossary

Gearing

The additional exposure gained on the underlying by purchasing warrants.

Formula:

$$\text{Gearing} = \frac{\text{Underlying price}}{\text{Warrant price} \times \text{Exercise ratio}}$$

Example, gearing of a warrant is 10x, it means using the same amount of capital, you will have 10 times more exposure than if you purchased the underlying.

To estimate the increase / decrease in the warrant price relative to the underlying price, we should look at effective gearing.

Implied Volatility

The most important indicator when assessing a warrant. It refers to the estimate of future price volatility of a specified underlying asset and is used by the market as an indicator to decide whether a warrant is cheap or expensive.

All things being equal, the higher the expected volatility, the higher the warrant price.

Effective Gearing

Effective gearing reflects the relationship between changes in the warrant price and in the underlying price.

Formula:

$$\text{Effective Gearing} = \text{Gearing} \times \text{Delta}$$

Effective gearing of 10 times, other things being equal, means for every 1% change in underlying price, the warrant price moves by 10%.

Delta

Measures the theoretical movement in warrant price when the price of the underlying asset changes. Delta for Call Warrant lies between 0 and 1.

Formula:

$$\text{Delta} = \frac{\text{Change in warrant price} \times \text{Exercise ratio}}{\text{Change in the underlying price}}$$

Example, a call warrant with an exercise ratio of 1,

A delta of 0.50 implies that if the value of the underlying changes by 20 sen, then the value of the call warrant should change by 10 sen.

Premium

Price difference between buying and exercising the warrant, compared to a direct purchase of the underlying asset.

Formula:

$$\text{Premium for Call warrant} = \frac{[(\text{Warrant price} \times \text{Exercise ratio}) + \text{Exercise price}] - \text{Underlying price}}{\text{Underlying price}}$$

Volatility

The uncertainty in the movement of prices which will affect the return of an underlying.

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