

NAGA Warrants 2017 Fifth Issuance

Buy-on-weakness Strategy on Laggards, Defensives

By Lawrence Yeo Eng Chien | lawrenceyeo@kenanga.com.my

Despite major US indices climbing to fresh records these past weeks, sentiment on the local stock market had instead taken an opposite turn. Foreign funds' selling aside, investors have had to contend with falling oil prices that have beaten down Oil & Gas stocks while being guarded against taking larger positions ahead of the Raya-extended weekend. Nevertheless, near-term catalysts could be window dressing activities as the 1st half of the year comes to an end next week.

Beyond that, we maintain our conservative view and continue to favour a Buy-on-weakness strategy on laggard and defensive plays should the key index dip below 1,735 during the seasonally tough third quarter ahead. In today's batch of Naga Warrant listings, Equity Derivatives is offering a contrast of winning stocks and beaten down counters as additional trading tools.

These 12 Structured Warrants comprise of AEON-CJ (strike: RM2.50), AIRPORT-CU (strike: RM9.50), GDEX-CG (strike: RM0.80), GENM-C27 (strike: RM6.00), LAFMSIA-CD (strike: RM6.00), MAGNUM-C2 (strike: RM1.80), MFCB-CB (strike: RM4.00), MYEG-C20 (strike: RM2.60), OLDTOWN-CB (strike: RM3.00), POS-C10 (strike: RM5.50), SUPERMX-C28 (strike: RM2.20) and TALIWRK-CC (strike: RM1.60).

Structured Warrants Commentary

Within this batch of Naga Warrant issuance, we see potential for **GDEX-CG**, **GENM-C27**, **AIRPORT-CU** and **MFCB-CB** to attract some trade should a pullback in share prices present the opportunity. As for technical plays, we also like **MYEG-C20** and potentially **LAFMSIA-CD** for investors who are interested to trade on a relief rebound.

For **GDEX (UP; TP: RM0.48)**, the company recently posted its 9M17 earnings which grew 18% on healthy parcel delivery demand from e-commerce. Although still trading at lofty valuations, investors can look forward to its secondary sorting hub which is set to commence operations in 2H18 while further inorganic growth remains a likelihood given the recent private placement.

Meanwhile, we recently ascribed a higher target price on **GENM (MP; TP: RM6.00)** from RM5.66 after rolling over our valuation base year to CY18. While the main attraction- 20th Century Fox Theme Park will only be ready by end-2017, the RM10.4b GITP development has been progressively opening the retail space, restaurants and casino floor since end-2016, which should contribute to the bottom-line. In fact, we see the upcoming quarters to be stronger given the launch of non-VIP floor at SkyCasino in end-March and VIP floor in 3Q17.

AIRPORT (UP; TP: RM8.38) strikes us as more of a technical play than fundamentally-driven one given the limited upside from our valuation standpoint. Our target price of RM8.38 is based on a FY18E PBV of 1.74x (+1.5 SD), already upgraded from 1.58x in May. That being said, we expect the strong recovery in passenger traffic to continue in Turkey as well as increasing demand for travel in Malaysia given the increased capacities by airlines.

Although we do not have active coverage on **MFCB**, the stock currently has a consensus target price of **RM4.48** with an **OUTPERFORM** rating. This represents a meaty upside of 22% from yesterday's closing price. Of note, MFCB registered a 9.1% YoY increase in its recent 1Q17 earnings, led by both power and resources segments. Given the current construction progress of 23% (year-end target of 45%-50%), more construction profits are anticipated to kick in for the coming quarters.

These 12 structured warrants are priced with a range of +/-13% 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 3.9x to as high as 13.8x and the conversion premium ranges from 9.2% to 38.0%. Call-warrants are leveraged instruments. For instance, by participating in AIRPORT-CU, an investor is exposed to a gearing of 13.8x. To be more precise, this call warrant offers up to 7.5x effective gearing for investors. We are projecting a short-term technical target price of RM9.45, implying a potential upside objective of 9.9% based on a closing price of RM8.60. Theoretically speaking, a 9.9% increase in the underlying price should translate to ~75% gain in AIRPORT-CU. 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
AEON-CJ	7 months	2.24	111.6%	2.50	2.5	0.15	5.97	3.18	28.3%
AIRPORT-CU	7 months	9.32	101.9%	9.50	4.5	0.15	13.81	7.50	9.2%
GDEX-CG	7 months	0.71	112.7%	0.80	1.2	0.15	3.94	2.34	38.0%
GENM-C27	7 months	5.65	106.2%	6.00	3.5	0.15	10.76	5.38	15.5%
LAFMSIA-CD	7 months	5.32	112.8%	6.00	5.0	0.15	7.09	3.57	26.9%
MAGNUM-C2	7 months	1.70	105.9%	1.80	2.0	0.15	5.68	3.22	23.5%

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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
MFCB-CB	7 months	3.88	103.1%	4.00	4.5	0.15	5.75	3.34	20.5%
MYEG-C20	7 months	2.16	120.4%	2.60	2.0	0.15	7.18	3.39	34.3%
OLDTOWN-CB	7 months	2.73	109.9%	3.00	3.0	0.15	6.07	3.27	26.4%
POS-C10	7 months	5.08	108.3%	5.50	4.0	0.15	8.47	4.30	20.1%
SUPERMX-C28	7 months	2.05	107.3%	2.20	2.5	0.15	5.47	3.08	25.6%
TALIWRK-CC	7 months	1.51	106.0%	1.60	2.0	0.15	5.03	2.92	25.8%

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

Daily Charting – Malaysia Airport Holdings Berhad (AIRPORT)



Technical Ratings

Name : Malaysia Airport Hldgs Berhad
Bursa Code : AIRPORT

Key Resistance and Support Levels

R2 : RM 10.00 (Key psychological level)
R1 : RM 9.45 (Early-June highs)
Closing : RM 8.60
S1 : RM 8.61 (23.6% Fib Retracement)
S2 : RM 8.35 (Trend-line support)

Theoretical Warrants Price (AIRPORT-CU)

TWR 2 : RM0.23
TWR 1 : RM0.165
- : -
TWS 1 : RM0.065
TWS 2 : RM0.03

AIRPORT's share price broke out of its year-long range-bound phase (RM5.70-RM6.85) earlier in March, and has since been on a healthy uptrend-climbing to as high as RM9.45 earlier this month. Although the share price has pulled back from its highs earlier this month, its primary uptrend remains intact. From here, any further downside would likely be shallow and we anticipate some support to be present at the RM8.61 (S1) and RM8.18-RM8.35 (S2) levels. On the upside, we expect an eventual retest of its RM9.45 (R1) highs, beyond which the RM10.00 (R2) key psychological level is next.

Source: Bloomberg, Kenanga Research

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Daily Charting – Lafarge Malaysia Berhad (LAFMSIA)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Lafarge Malaysia Berhad
 Bursa Code : LAFMSIA

Key Resistance and Support Levels

R2 : RM 5.85 (23.6% Fib Retracement)
 R1 : RM 5.50 (May/June Congestion)
 Closing : RM 5.24
 S1: : RM 5.20 (Short-term trend-line)
 S2: : RM 5.06 (May reaction low)

Theoretical Warrants Price (LAFMASIA-CD)

TWR 2 : RM0.18
 TWR 1 : RM0.13
 - : -
 TWS 1 : RM0.085
 TWS 2 : RM0.065

LAFMSIA's share price has been on a sustained downtrend for over two years. While the intermediate-to-longer technical outlook remains bearish, the share price is beginning to show signs of bottoming out in the short term. Notice that some bargain hunting activities have been present at the RM5.06-RM5.20 level. Concurrently, the RSI and Stochastic indicators have also been on a rising trend these past two months – potentially indicating that selling pressure has diminished. From here, we would not rule out the possibility of a near-term relief-rebound towards the RM5.50 (R1) congestion zone and possibly RM5.85 (R2) further up. Downside support levels are RM5.20 (S1) and RM5.06 (S2) mentioned above.

Daily Charting – Mega First Corporation Bhd (MFCB)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Mega First Corp Bhd
 Bursa Code : MFCB

Key Resistance and Support Levels

R2 : RM 4.57 (123.6% Fib projection)
 R1 : RM 4.02 (June Highs)
 Closing : RM 3.68
 S1: : RM 3.60 (Trend-line support)
 S2: : RM 3.42 (Resst-turned-Support)

Theoretical Warrants Price (MFCB-CB)

TWR 2 : RM0.24
 TWR 1 : RM0.17
 - : -
 TWS 1 : RM0.115
 TWS 2 : RM0.09

MFCB has been on a rising trend since May last year, having gained from a low of RM1.68 to as high as RM4.02 earlier this month. The past few weeks have seen light profit taking. However, with the primary uptrend still intact and low trading volumes during this profit-taking phase, we expect the current share price weakness to be temporary. Investors keen to bargain hunt may do so at the trend-line support at RM3.60 (S1), or RM3.42-RM3.46 (S2) confluence of support levels. Overhead resistance levels to target include the aforementioned RM4.02 (R1) high, beyond which the share price would have a clear path towards RM4.57 (R2) further up.

Daily Charting – MY E.G. Services Bhd (MYEG)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : MY E.G. Services Bhd
 Bursa Code : MYEG

Key Resistance and Support Levels

R2 : RM 2.50 (50% Fib Extension)
 R1 : RM 2.37 (May High)
 Closing : RM 2.11
 S1 : RM 2.03 (May Reaction Low)
 S2 : RM 1.90 (Resst-turned-support)

Theoretical Warrants Price (MYEG-C20)

TWR 2 : RM0.23
 TWR 1 : RM0.20
 - : -
 TWS 1 : RM0.12
 TWS 2 : RM0.09

Having being trapped in a range-bound phase for months (Oct-2016 to Feb-2017), MYEG finally broke out at RM1.68 (March) and commenced a strong rally to as high as RM2.37 last month. The share price has since consolidated downwards these past few weeks, forming a triangle-like pattern in the process. Although the shorter term technical outlook has deteriorated, MYEG's intermediate and longer-term trend remains positive. We reckon that the share price needs to break out of the triangle resistance fairly soon, which would attract some follow-through buying back to its RM2.37 (R1) high and RM2.50 (R2) further up. Conversely, a break below the triangle support could trigger a capitulation toward RM2.00-RM2.03 (S1) or RM1.90 (S2) below.

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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 20.0 sen, then the value of the call warrant should change by 10.0 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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research

