

18 July 2017

## **NAGA Warrants 2017 Sixth Issuance**

### **Buy on Weakness at 1,720-1,750 Zone**

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Despite gains in regional markets and the US markets climbing to fresh record highs, the Malaysian market has continued to trade in a lackluster fashion these recent weeks. Notably, the benchmark FBMKLCI is now hovering close to its two-month low while the 20-day SMA has just completed a “Death Cross” with the 50-day SMA. Already, we have seen a reversal in buying interest as per our “Accumulated Volume-Price Study” (see Market Strategy report dated 4<sup>th</sup> July), and although we would not discount the possibility of a near-term oversold relief rebound, the overall technical outlook is signalling further risk on the horizon.

Fundamentally, we remain **NEUTRAL** on the 3Q17 market prospects as it is seasonally the weakest quarter. This comes despite our upwards revision of earnings estimates and index target to 1,850 (from 1,775 in the previous quarter), of which we see an uninspiring upside potential of ~5%. As such, we prefer to adopt a more conservative approach or defensive strategy ahead. Timing-wise, we prefer a “Buy on Weakness” approach, if and when the index corrects to our B.O.W zone of 1,720-1,750.

Over the next two days, Equity Derivatives will be listing 11 Structured Warrants as additional tools for traders who wish to gain a leveraged position for such trading strategy. They consist of **SEM-CG** (strike: RM1.55), **BIMB-CV** (strike: RM4.60), **CIMB-C25** (strike: RM7.00), **HARTA-CZ** (strike: RM7.50), **IJM-C7** (strike: RM3.80), **KAREX-C3** (strike: RM1.90), **MUHIBAH-CE** (strike: RM3.30), **TOPGLOV-C19** (strike: RM6.10), **WPRTS-CS** (strike: RM4.10), and twin listings **LCTITAN-CA** (strike: RM6.80) and **LCTITAN-CB** (strike: RM7.80) tomorrow.

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#### **Structured Warrants Commentary**

From this batch of Naga Warrant issuance, we like rubber glove markers and see the potential in **HARTA-CZ** and **TOPGLOV-C19**. At the same time, a stream of news coverage on the recent listing of chemical giant **LCTITAN** is also likely to keep the company in the limelight, potentially attracting some trading interest in **LCTITAN-CA** and **LCTITAN-CB**. Traders who wish to position for technical pullbacks in index-linked counters may also consider **CIMB-C25** and **WPRTS-CS**, both of which have already seen their share prices moderating.

For **HARTA (OP; TP: RM7.70)**, we are more optimistic on its growth prospects and outlook in subsequent quarterly earnings, with our conviction being reinforced by new capacities from the gradual ramp-up of Plant 3. Further along, we also expect higher FY18 and FY19 net profits as a result of higher utilisation and stronger-than-expected demand, which has necessitated our recent earnings revision and target price upgrade from RM6.00.

Meanwhile, **TOPGLOV (OP; TP: RM6.10)** ranks among our top picks for 3Q17. As with **HARTA**, we expect subsequent quarterly earnings to improve, driven by re-stocking activities following the lower input latex cost underpinning lower ASPs. Added catalysts may also include the Group’s plans to venture into the condom business, in addition to the construction of three new manufacturing facilities, which will collectively add another 128 production lines and 11.7b pieces/p.a. in capacity over a period between end-2018 and FY19.

For **LCTITAN (NR; TP: RM9.05)**, its return to the local equity market has been heralded as one of the largest in recent years. With its TE3 and PP3 and the ambitious USD3.5b Integrated Petrochemical Facility coming on-stream over the next five years, we see the Group boosting its capacity by 73%, which would enable it to ride on the huge demand potential in the region. In our recent IPO Note, we value **LCTITAN** at 13.2x CY18 PER, which comes at a 20% discount to our targeted 16.5x PER for **PCHM**.

Of the twin **LCTITAN-CA** and **LCTITAN-CB** listings, we favour **LCTITAN-CA** (strike: RM6.80) for trading shorter term movements given its high effective gearing of 5.6x. This structured warrant is also closer-to-the-money, making the unit price more sensitive to changes in the underlying share price and facilitating smoother entry and exit. Conversely, **LCTITAN-CB** (strike: RM7.80) is more suited for longer-term investors who see high upside potential in the underlying share price. Although **LCTITAN-CB** is far out-of-the-money, effective gearing is still decent at 4.5x while the main advantage lies in its comparatively low delta of 0.42 (vs 0.52).

These 11 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 3.1x to as high as 12.5x and the conversion premium ranges from 12.8% to 49%.

Call-warrants are leveraged instruments. For instance, by participating in **LCTITAN-CA**, an investor is exposed to a gearing of 10.8x. To be more precise, this call warrant offers up to 5.6x effective gearing for traders. Given our fundamental target price of RM9.05, this implies a potential upside objective of 42% based on a closing price of RM6.36. Theoretically speaking, a 42% increase in the underlying price should translate to ~235% gain in **LCTITAN-CA**! This general estimate is applicable to other Naga Warrants as well.

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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
SEM-CG	7 months	1.36	114.0%	1.55	2.0	0.15	4.54	2.57	36.0%
BIMB-CV	7 months	4.59	100.2%	4.60	4.0	0.15	7.65	4.49	13.3%
CIMB-C25	7 months	6.56	106.7%	7.00	3.5	0.15	12.50	6.00	14.7%
HARTA-CZ	7 months	7.38	101.6%	7.50	5.5	0.15	8.95	5.04	12.8%
IJM-C7	7 months	3.48	109.2%	3.80	3.0	0.15	7.74	3.96	22.1%
KAREX-C3	7 months	1.70	111.8%	1.90	3.0	0.15	3.79	2.28	38.2%
LCTITAN-CA	7 months	6.50	104.6%	6.80	4.0	0.15	10.84	5.59	13.8%
LCTITAN-CB	7 months	6.50	120.0%	7.80	4.0	0.15	10.84	4.45	29.2%
MUHIBAH-CE	7 months	2.76	119.6%	3.30	1.7	0.15	10.82	4.46	28.8%
TOPGLOV-C19	7 months	5.69	107.2%	6.10	5.0	0.15	7.59	3.99	20.4%
WPRTS-CS	7 months	3.64	112.6%	4.10	3.0	0.15	8.08	3.93	25.0%

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

## Daily Charting – Top Glove Corporation Berhad (TOPGLOV)



Source: Bloomberg, Kenanga Research

## Technical Ratings

Name : Top Glove Corp Berhad  
Bursa Code : TOPGLOV

## Key Resistance and Support Levels

R2 : RM 5.94 (Jun High)  
R1 : RM 5.80 (July High)  
Closing : RM 5.67  
S1 : RM 5.50 (Triangle support)  
S2 : RM 5.25 (June Low)

## Theoretical Warrants Price (TOPGLOV-C19)

TWR 2 : RM0.175  
TWR 1 : RM0.16  
- : -  
TWS 1 : RM0.13  
TWS 2 : RM0.105

Earlier in May, TOPGLOV staged a strong rally that saw its share price climbing to the highest levels in more than a year. Although the share price has been range-bound in the short term, TOPGLOV's medium-to-longer term trend remains bullish while its major SMAs are still in a "Golden Crossover". From here, TOPGLOV will need to take out its short-term resistance of RM5.80 (R1) fairly soon in order to attract follow-through buying towards RM5.94 (R2) and RM6.27 (R3) further up. Failing which, momentum-loss could cause the share price to slip back towards the RM5.50 (S1) support level. There, a breakdown would signal the start of a bearish reversal towards the next support located at RM5.25 (S2).

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**Daily Charting – Hartalega Holdings Bhd (HARTA)**



Source: Bloomberg, Kenanga Research

**Technical Ratings**

**Name** : Hartalega Holdings Bhd  
**Bursa Code** : HARTA

**Key Resistance and Support Levels**

R2 : RM 7.59 (38.6% Fib Extension)  
 R1 : RM 7.40 (July High)  
 Closing : RM 6.87  
 S1: : RM 6.50 (Pullback support)  
 S2: : RM 6.00 (June Low/Psychological lvl)

**Theoretical Warrants Price (HARTA-CZ)**

TWR 2 : RM0.17  
 TWR 1 : RM0.15  
 - : -  
 TWS 1 : RM0.06  
 TWS 2 : RM0.01

After spending half a year in a sideways grind, HARTA's share price finally broke out at RM5.00 in May, and rallied to as high as RM7.40 earlier this month. Although the share price has pulled back slightly, HARTA's overall technical picture remains positive. Any near-term weakness will likely be shallow and temporary with a solid support level at RM6.50 (S1). On the upside, we expect an eventual retest of the RM7.40 (R1) where a decisive breakout above this level would clear a path towards RM7.59 (R2) and RM7.91 (R3) further up. Downside levels include the aforementioned RM6.50 (S1) and RM6.00 (S2) below.

**Daily Charting – CIMB Group Holdings Bhd (CIMB)**



Source: Bloomberg, Kenanga Research

**Technical Ratings**

**Name** : CIMB Group Holdings Bhd  
**Bursa Code** : CIMB

**Key Resistance and Support Levels**

R2 : RM 7.23 (123.6% Fib Extension)  
 R1 : RM 6.87 (June Highs)  
 Closing : RM 6.28  
 S1: : RM 6.30 (50-day SMA)  
 S2: : RM 6.00 (Uptrend support/psychological level)

**Theoretical Warrants Price (CIMB-C25)**

TWR 2 : RM0.24  
 TWR 1 : RM0.19  
 - : -  
 TWS 1 : RM0.115  
 TWS 2 : RM0.075

CIMB's share price has been on a healthy uptrend since the start of the year, having climbed from a low of RM4.50 in January to as high as RM6.87 last month. Although the share price has since come under short-term profit taking, its medium-to-longer term uptrend remains intact while the key SMAs are in a "Golden Crossover". From here, we expect any near term weakness to be shallow and temporary. The 50-day SMA at RM6.30 (S1) should offer some support to the share price, failing which, a stronger level of support is likely to be present at RM6.00 (S2) where the uptrend line and psychological level converge. On the upside, overhead resistances to target are RM6.87 (R1) and possibly RM7.23 (R2) further up.

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Daily Charting – Westports Holdings Bhd (WPRTS)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Westports Holdings Bhd  
 Bursa Code : WPRTS

Key Resistance and Support Levels

R2 : RM 4.00 (38.2% Fib Retracement)  
 R1 : RM 3.84 (23.6% Fib Retracement)  
 Closing : RM 3.71  
 S1: : RM 3.61 (recent lows)  
 S2: : RM 3.50 (psychological level)

Theoretical Warrants Price (WPRTS-CS)

TWR 2 : RM0.21  
 TWR 1 : RM0.18  
 - : -  
 TWS 1 : RM0.145  
 TWS 2 : RM0.125

WPRTS has been on a downtrend for a year. Currently, the key SMAs are still in a “Dead Crossover”. Nevertheless, early signs are beginning to show that the share price may be bottoming out. Of note, the share price appears to have found solid support at the RM3.61 (S1) level. At the same time, the MACD is now “Bullishly divergent”, which signal that the selling momentum is waning. Bargain hunters may consider entering now, whilst keeping an eye out for the immediate resistance levels at RM3.84 (R1) and RM4.00 (R2). Support levels include the aforementioned RM3.61 (S1), although a break below would be highly negative with RM3.50 (R2) as the next support.

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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 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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