

NAGA Warrants 2017 Seventh Issuance

Index-linked Structured Warrants for Trading Relief Rebound

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Just last week, all three major US indices (the Dow, S&P500 and Nasdaq) registered fresh all-time highs as stronger economic data fuelled optimism on the global economy. However, it wasn't until yesterday that the local FBMKLCI finally broke out of its consolidation band between 1,750-1,761 albeit on subdued trading volume. Kicking off the week, the FBMKLCI demonstrated some lift in yesterday trade, after the International Monetary Fund upgraded its 2017 growth forecast for Malaysia to 4.8% from 4.5% and indicated its optimism on the country's prospects.

Although we would not discount the possibility of a follow-through relief rebound, we believe that any near-term gains will likely be limited and short-lived. As yet, the overall technical picture is signalling some risk on the horizon given the "Dead Cross" between the 20-day and 50-day SMAs recently and technically, we see near-term gains to be capped at 1,771/1,775 resistance levels. Having said that, investors who wish to gain a leveraged position may look forward to today's batch of Naga Warrant listings as added tools to trade the anticipated relief rebound.

In today's batch, Equity Derivatives will be issuing 12 Structured Warrants comprising of AMBANK-C2 (strike: RM5.25), CBIP (strike: RM2.20), FGV-C36 (strike: RM2.30), MAXIS-C1 (strike: RM6.00), MMCCORP-C7 (strike: RM2.60), MYEG-C23 (strike: RM2.70), PADINI-CL (strike: RM3.67), PCHEM-C12 (strike: RM7.50), SERBADK-CB (strike: RM2.50), STAR-CE (strike: RM2.60), SUNSURIA-CA (strike: RM1.60) and TAANN-CK (strike: RM4.20).

Structured Warrants Commentary

From this batch of Naga Warrant issuance, we see the potential in heavyweights **MAXIS-C1** and **PCHEM-C12** which we view as proxies for trading a rebound in the benchmark FBMKLCI. We also like **PADINI-CL** post its 9M17 earnings announcement in May. Note that the underlying counters of these three Structured Warrants had their target prices and ratings upgraded by our research team recently. We also like **FELDA-C36** and **TAANN-CK**, though they are more of chart-based plays.

For **MAXIS (OP; TP: RM5.90)**, we recently raised our target price and rating (from MP; TP: RM5.85) after the company announced its 1H17 results which showed some signs of improvement operationally. More importantly, MAXIS' share price has also weakened by c.10% since early June, which we believe has priced-in the negative news flow arising from: (i) the recent equity fund raising exercise, and (ii) termination of U Mobile NSA agreement. We see trading opportunities from here and foresee a potential total return of >10% from here.

Similarly, **PCHEM (OP; TP: RM8.09)** also had its TP and rating upped from (MP; TP: RM7.65) after posting its most profitable quarter (1Q17). The strong quarterly showing was largely driven by strong USD-priced ASP and volume growth as plant utilisation was nearly 100%. Although we expect the coming quarters to be weakened by softer ASP outlook while plants are scheduled for turnaround activities in the next three quarters, FY17 should still come out as a record year, prompting us to revise our forecasts upwards.

Meanwhile, **PADINI (OP; TP: RM3.80)** reported 9M17 revenue which surged 16.6% to achieve record sales of RM1.1bn driven by additional sales from 13 new outlets (5 Padini Concept Stores, 7 Brands Outlets and 1 free standing store) as well as strong sales growth from its existing stores. We are positive on the strong set of results that was achieved on the back of weak consumer sentiment throughout the year and we expect the earnings momentum to be sustained, underpinned by the strong brand profile of the Group and continuous expansion in new stores.

These 12 structured warrants are priced with a range of +/-40% 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 3.6x to as high as 13.3x and the conversion premium ranges from 14.7% to 67.7%. Call-warrants are leveraged instruments. For instance, by participating in MAXIS-C1, an investor is exposed to a gearing of 9.2x. To be more precise, this call warrant offers up to 4.5x effective gearing for traders. Given our fundamental target price of RM5.90 (implying a potential upside objective of 7.2%) based on the EOD price of RM5.50. Theoretically speaking, a 7.2% increase in the underlying price should translate to ~32% gain in MAXIS-C1. 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
AMBANK-C2	7 months	5.01	104.8%	5.25	4.0	0.15	8.35	4.48	16.8%
CBIP-CF	7 months	2.04	107.8%	2.20	2.0	0.15	6.80	3.64	22.6%
FGV-C36	7 months	1.64	140.2%	2.30	3.0	0.15	3.65	2.05	67.7%
MAXIS-C1	7 months	5.50	109.1%	6.00	4.0	0.15	9.16	4.52	20.0%
MMCCORP-C7	7 months	2.41	107.9%	2.60	2.5	0.15	6.43	3.48	23.4%
MYEG-C23	7 months	2.13	126.8%	2.70	3.0	0.15	4.72	2.49	48.0%

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Table 1: Warrant Parameters (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
PADINI-CL	7 months	3.47	105.8%	3.67	4.0	0.15	5.78	3.27	23.1%
PCHEM-C12	7 months	7.00	107.1%	7.50	3.5	0.15	13.33	6.27	14.6%
SERBADK-CB	7 months	1.98	126.3%	2.50	2.5	0.15	5.27	2.68	45.2%
STAR-CE	7 months	2.36	110.2%	2.60	2.5	0.15	6.31	3.36	26.0%
SUNSURIA-CA	7 months	1.42	112.7%	1.60	2.0	0.15	4.74	2.67	33.8%
TAANN-CK	7 months	3.48	120.7%	4.20	3.0	0.15	7.74	3.55	33.6%

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

Daily Charting – Ta Ann Holdings Bhd (TAANN)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Ta Ann Holdings Berhad
 Bursa Code : TAANN

Key Resistance and Support Levels

R2 : RM 3.74 (38.2% FR)
 R1 : RM 3.61 (May High/ 23.6% FR)
 Closing : RM 3.56
 S1: : RM 3.41 (Recent bottom)
 S2: : RM 3.24 (Aug-2016 low)

Theoretical Warrants Price (TAANN-CK)

TWR 2 : RM0.19
 TWR 1 : RM0.17
 - : -
 TWS 1 : RM0.14
 TWS 2 : RM0.115

TAANN's share price has been on a downtrend since it broke down from a "Double Top" pattern earlier in February. Nevertheless, the share price is now showing early signs of bottoming out at RM3.41. Notably, the 20-day SMA has converged with the 50-day SMA last week, while the MACD is diverging with the price trend. Combined, this indicates that selling pressure has diminished, which provides investors fertile grounds to bottom fish. For investors looking for a clearer BUY signal, watch for a decisive move above the RM3.61 (R1) resistance which would then set sights on RM3.74 (R2) next. A solid floor is anchored at RM3.41 (S1), although a break below would be highly negative with RM3.24 (S2) as next support.

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Daily Charting – Felda Global Ventures Holdings Bhd (FGV)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Felda Global Ventures Holdings Bhd
 Bursa Code : FGV

Key Resistance and Support Levels

R2 : RM 2.00(Downtrend-line resistance)
 R1 : RM 1.87 (June high/ 100-day SMA)
 Closing : RM 1.69
 S1: : RM 1.60 (Uptrend-line support)
 S2: : RM 1.42 (Nov-2016 low)

Theoretical Warrants Price (FGV-C36)

TWR 2 : RM0.215
 TWR 1 : RM0.195
 - : -
 TWS 1 : RM0.145
 TWS 2 : RM0.11

FGV has been trading within a narrowing range since a year back. Currently, the SMAs are still in a bearish crossover although the share price shown some bounce from its uptrend support line at RM1.58/RM1.60 (S1) recently. Furthermore, the MACD has resumed its upward trend in the past two months which indicates that momentum has turned positive in the short term. As such, we would not discount the possibility of follow-through buying towards RM1.87 (R1) and RM2.00 (R2) next. Downside is likely to be limited to the aforementioned RM1.58/RM1.60 (S1) support, although a break below would be a huge negative with next support likely residing at RM1.42 (S2).

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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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