BURSA MALAYSIA'S 1H2011 FINANCIAL RESULTS BRIEFING
(Read in conjunction with PowerPoint Presentation)
Kuala Lumpur
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Dato' Tajuddin:

Bismillahirahmanirahim.

Assalamualaikum wa rahmatullahi wabaraktuh and good afternoon to everyone.

First and foremost, I would like to welcome you all to this analysts briefing. Joining us are some of those who have called in.

Without further ado, we will proceed with the presentation slide. We have a few things on the agenda.

We will divide this into four parts.

1. Firstly, I will take you through our business highlights and strategy.
2. Nadzirah, our CFO, will go into the financial numbers.
3. I will go over our targets and conclude.
4. Q&A session

The Key points that we have are on the business highlights. These are some of the events and improvements that have happened to our market over the past six months.

First is the highlight with regard to the elevation of Bursa Malaysia to Advanced Emerging market status, from Secondary Emerging market status in the FTSE Global Equity Index Series on 20th June 2011. What we see here potentially, is two things. It will raise the country profile further, and there have been estimates which suggest that this will provide more liquidity to us, and attract more interest to Bursa Malaysia, attracting inflow of international funds.

There was also a re-rerating by MSCI, where Malaysia's weightage increased from 2.9 to 3.2%. In April, we launched the ASEAN Brand identity, this is with regards to the ASEAN Exchanges website and ASEAN Stars. Very soon, we will promote the ASEAN as a capital market by itself, as an asset class. We are also making an effort to fast track dual licensing programme. Under the programme, it is easier for eligible experienced securities broker to obtain a licencse to trade futures contracts. And last but not least, we are looking at PDTs. SC has approved the increase in the number of PDTs to 100. Currently, there has been an increase of 19, from 36 to 55.

On the financial highlights, I will briefly go through some of the key highlights here, our CFO will go into more detail later. We see operating revenue for the first half 2011 was RM200 million, up 27% from the first half of 2010. This is basically driven by an increase in securities and derivatives trading activity in 2011. On the profit front, for the first half of 2011, there was an increase of 37% from the first half of 2010. Our cost to income ratio showed an improvement of 7%, ROE stood at 18%, up 29%. We have gone to the board, and the board has approved an interim dividend of 13 sen per share, which is up by 37%.

The next slide will cover the profit trend. What we have shown here, is profit since the first quarter 2008, quarter by quarter. It's interesting to see profit for the first quarter and second quarter 2011, were much higher than the previous quarters. The profit for the first half of 2011 is on a higher trend than the profit for the previous four quarters.

The next slide will be on the drivers we have. The first chart shows ADV increased from RM 1.4 billion to RM1.9 billion in the first half of 2011. Velocity increased from 31% to 35%. Both ADV and velocity YTD recorded strong growth in 2011 compared to other markets in this region. In general, the improvement in sentiment has driven strong trading activities. This can be attributed to the that has spurred activities in specific sectors, especially finance and construction. We also continue to engage foreign funds, we are seeing more attention for our market, especially compared to other countries that have not performed so well, emerging markets are areas that they are targeting. We believe that our activities to profile Bursa Malaysia is bearing some fruit.

The middle chart shows market capitalisation and the FBMKLCI, in the first half of 2011, which recorded improved performance in comparison with the previous half year. The KLCI has been one of the best performing indexes in the region this year, and it reached a high of 1,594 on 8 July 2011. Generally it is bucking the trend, except for what is happening in Indonesia, which is tracking the same growth as ours.

On the right side, in terms of new listings, in the first half of 2011, we are seeing strong numbers, compared to the total of 29 last year, we already have 17 this year. In July we are looking at having another 8. We strongly believe that this momentum will continue.

Another set of drivers are the derivatives market drivers, which is another contributor to the income stream for Bursa. We are seeing record numbers in terms of our number of contracts traded. This is due to a number of reasons. One of the reasons is the migration of BMD's products onto CME's Globex trading Platform. This has resulted in enhanced accessibility and visibility, we are attracting new clients, and importantly, increasing the volume base of existing ones. The Oil Palm cash contract is becoming a little bit soft, that has increased a lot more activities on the hedging side.

I will switch now to the Business Review and Strategy. I decided to put this slide in, knowing that you will be trying to figure out what is it we are looking at, what are the areas we want to focus on. Knowing very well that this is an exchange, it involves many parties to make it successful, to move it and to achieve greater success.

In this aspect I have put in place, and it has been approved by the board quite recently, is the early part of our strategy for 2011-2013. Our mid-term target for 2013, is to build a competitive and vibrant market. To drive this, we will be guided by the 5 strategic thrusts that we put on the board. To grow the 3 core markets that Bursa is operating at this point in time. Firstly, the securities market, which contributes the main part of the revenue and activities in the exchange. Secondly, the derivatives markets, in Bursa, when we speak about the derivatives markets, we are talking about derivatives and commodities, because we put them together. The third is Islamic markets. Islamic Markets is one of the areas that I think the exchange has been lagging behind, and one of the key strategies is that we will start putting a lot more effort in this particular area.

Underscored by this, you will see the foundations. I will be spending a bit more time in getting the right people to run the business, hopefully I can build up a house of experts in all the respective markets, we are looking at adopting appropriate technology to drive the business. Last but not least, I will make sure there is a sound regulatory framework in place. I think this is an area we have built upon, and we are looking to see how we can make it conducive for the market to grow, to build a competitive and vibrant market.

To elaborate on some of the key points, thrust one and two which is on the board, we have to create more activities in the market, to initiate and revitalize the market and improve the ecosystem. For thrust three, we are also looking at how to further improve our internal efficiencies and productivity. I am looking at trying to ensure that all activities driven by the organisation will translate into profitability, and monetising all our activities.

Thrust four is our effort to look at the internationalizing our market, with the key to driving more global attention to this market. Aside from domestic, attention needs to be paid to this particular region, with globalization, with regionalization, to bring the Malaysian market up front. The last thrust is that we will develop and retain our world class talent. Building is one thing, but we hope to actually retain them.

I will divide this into two parts, No.1, the immediate priority for 2011, the year we call building blocks for future growth. For securities markets, to increase vibrancy, by expanding the investor base and providing greater diversity for investors. To do this, we are increasing the number of PDTs, we are looking at increasing our engagement with foreign and domestic investors, we are engaging with the government on the dilution of the GLIC holdings and listing of government companies. The fourth one is targeting specific retail segments in order to increase participation. Just for a little bit of elaboration, when we talk about retail segment, we have a large number of CDS account holders, of which only a small percentage are actually active traders. It is a mentality and attitude that we can expand, especially on the retail side.

Some of the key areas are the working class and young women. Gentlemen, this is not gender bias, but they are saying that the ladies have got more money. Strategically, this is not exhaustive, but what we are saying is that, we want to encourage more people to trade. Some of you have covered me when I was in the banking side, maybe I spoke about savings a little more, now I'm not switching, I'm talking about investment. I know there is a big pool of money, people who actually save, and you will see people saving in FD, some in asset wealth management.

On the international space, we are looking at new foreign institutions, we are leveraging on the QDII status that we got, that's our China strategy. We are also involved with the MIFC Islamic Market, we are looking at positioning our self in that area. In Hong Kong, despite the fact that they are all exposed to the big cap, Hong Kong is also interest in our mid tier. I spoke to most of the CEO's in the mid tier companies, and they said that not enough is being done in that particular area. I think we will be spending a lot more tie in that area. Especially in a market that is quite familiar with us, as a start, because Hong Kong is one area which has coverage of Malaysia. We can do this in America, but in the states it will take a little bit more time, because they have yet to familiarise themselves, so they will be asking questions, the last exercise we went in New York, they asked whether the capital control were still here, they are not ready to purchase. We have different strategies to work on that.

On the derivatives side, I think you'll see a lot of traction in this particular area, we are quite excited on this. For 2011, we are looking to improve access to our market and increase awareness of our products. We are looking to target high frequency traders, as well as hedge and commodity funds in order to increase participation from foreign traders. We also hope to improve local participation. This is through easing entry requirements and extending tax incentives, and we plan to improve retail participation through the initiatives mentioned earlier on dual licensing.

On the Islamic market, it will take a little while, but we aim to build on the success of our Bursa Suq Al Sila' platform, we hope to increase participation, we are seeing a lot of growth in this area. Last but not least, we would like to promote our Syariah compliant equities. Currently, 80% of our companies are Syariah compliant. The view here is that, with MENA, how do you package it, how do you sell it, how do you push it forward. These are some of the challenges we are looking at, and these will remain our priorities for 2011 as a building block for the future.

What do we intend to do in the medium term, for 2012-2013? We are looking towards holistic improvements to create vibrant markets. In this particular area, we plan to look and restructure some of the issues that are inherent in the market to improve access, like trading and clearing membership, we are looking towards finding a replacement, or upgrade, we are yet to decide, for our Bursa Trading System. We are also exploring various opportunities with regards to strategic alliances. This may not necessarily be a merger and acquisition, but it can be in the form of collaboration. I think you guys are aware of the M&A activity recently, some have failed and some have become successful. From an emerging market perspective, I think my angle of coming in this particular area is through strategic alliances, maybe through collaboration.

The derivatives market in the medium term is something we plan to push hard. We would aim to further liberalise access to our market and launch new products for investors. The products will take a little bit more time to put in place, that's why we are putting it in mid-term priorities. To do this we will be addressing some structural issues, streamlining our membership structure, and implementing a new derivatives clearing system, which will allow a more diverse array of products to be developed and launched. If the project goes well, we should complete it by 2012.

Islamic for the medium term will see us expand our current client base, with particular focus on foreign clients. We are also looking to enhance our Syariah compliant offerings.

For regulation, I think we have done quite a good job in this area, suffice to say that we are trying to make the market conducive enough to not only have a good exchange. We want to have an exchange where people can trade, list and can have a lot of confidence in the integrity of the market.

I'll pass this session to our CFO to go through the numbers.

Puan Nadzirah:

Thank you Dato'.

A very good afternoon to everyone. I will bring you through our results for the 1st half of the year and the 2nd quarter ended 30th June in slightly greater detail, hopefully you will not be bored. Let me start by going through the quarterly performance. Here we are comparing 2nd quarter performance against the preceding quarter, we see an overall drop in results. Operating revenue decreased by 14% to RM93m, while PATAMI decreased by 12% to RM36m. The downward movement is in line with the lower trading activity on the securities market in the 2nd quarter compared to the 1st quarter. Moving on to the 1st half results. We recorded operating revenue of RM200m, a 27% increase in comparison to last year. This increase is attributed to the improvement in the securities and derivatives markets. Other income saw an increase of 15% to RM17m. The increase comes from investment income, which improved as a result of a larger fund base and higher OPR. Operating expenses increased by 16% to RM109m mainly due to Globex service fee and staff costs. We will look at this in a later slide. Staff costs also saw some increase. We will look at this further in a later slide. PATAMI saw a YoY growth of 37% to RM76m, while EPS grew by 36% to 14 sen per share.

The 2nd quarter saw a decline in operating revenue of 14%. The ADV traded on the securities market moved from RM2.2b in the 1st quarter to RM1.6b in the 2nd quarter, resulting in a 20% reduction in securities trading revenue. Derivatives trading revenue declined marginally 6% to RM12m, as average daily contracts traded fell from 37,000 in the 1st quarter to 32,000 in the 2nd quarter. Stable revenue however improved by 6% as a result of higher depository and information services revenue. Other operating revenue was higher in the 1st quarter as income from POC was recorded in March, when the event was held. Comparing our 1st half revenue of RM200m against last year we see a RM43m growth. Out of which, RM27m or 64% of the growth is attributed to improvement in securities trading revenue. The higher ADV of RM1.9b compared to RM1.4b in the corresponding period last year may be attributed to a few internal and external factors such as the shift of global funds into emerging markets, the positive impact of ETP announcements on investor sentiment, and our increased engagements with foreign institutions. The derivatives market contributed RM8m or 18% to the growth in operating revenue. The daily average contracts growth from 23,000 in the 1st half of last year to 34,000 contracts this year is attributed to the increased access and visibility of our products upon migration to CME's Globex trading platform in September last year. Stable revenue saw an increase of 8% as a result of higher revenue from information services and listing fees. Other operating revenue improved due to higher participation at our POC and higher interest on collateral.

Looking in more detail at our stable revenue, we see that the largest contributors are our listing, depository and information services. Together, these make up 80% of our stable revenue. Looking at our QoQ numbers We see that most of our stable revenue lines show improvement, with the exception of listing fees which decreased by 6% to RM9m. The decline is due to the lower number of structured warrants listed in the 2nd quarter – 86 compared to 115 in the 1st quarter. Depository services saw an improvement of 13% as a result of larger IPOs in the 2nd quarter, which enabled us to collect higher public issue fees. A higher number of request for depository records and larger bulk transfers in the 2nd quarter further added to this quarter's depository revenue. Increase in sales of equity and derivatives market data and recognition of certain prior period sales in the current quarter gave rise to the increase of 16% in information revenue. Comparing our numbers YoY, we see an increase of 8% in listing fees. In terms of structured warrants, YoY there were 201 listings in the first half of the year compared to 86 last year. Depository fees were higher by 4% due to e-Dividend services which commenced in September last year and an exceptionally large share buy back, on which we charged withdrawal fee, in the 1st half of this year. We also saw a higher number of subscribers for equity and derivatives information, which resulted in higher information revenue.

Our large expense items are staff costs and depreciation, which makes up 47% and 18% of our total cost. QoQ, we see an overall decline in expenses of 11%. This is largely due to the POC event which happened in the 1st quarter. You can see this in the reduction of market development expenses. Staff costs declined marginally as a result of a lower bonus provision in the 2nd quarter. Other operating costs declined by 22% to RM8m as a result of the write off of fixed assets and higher professional fees in the 1st quarter. The YoY increase of 16% from RM94m to RM109m is largely due to staff costs and the globex service fee. The drop in depreciation of 10% to RM20m is a result of the cessation of Bursa Trade Derivatives. Market development expenses increased by 18% to RM7m mainly due to a larger scale POC event and more international marketing efforts. IT maintenance increased by 10% to RM8m as a result new systems which went live in 2010. Other operating costs consist of administrative costs, building management costs, CDS expenses, regulation expenses and various other costs. The increase of 19% is largely due to higher CDS postage expenses, higher enforcement costs and a write off of fixed assets in the 1st quarter of the year.

As Dato' Tajuddin has mentioned, the board has approved a dividend of 13 sen per share, which is equivalent of 91% payout of our PATAMI. Total shareholders' return since our listing in March 2005 till now in 247%. With this I now pass back to Dato' Tajuddin.

Dato Tajuddin:

Thank You Nadzirah,

I asked myself, going forward, what are the key areas we are looking at. Clearly, an exchange needs to move forward, and needs to be able to be measured. These are two key areas that we are looking at as areas of performance. First is the profitability of Bursa itself, and also the liquidity. Liquidity translates into vibrancy and competitiveness of the market. We need to make sure we increase the liquidity of the business.

For profitability, we want to ensure our shareholders value will continue to grow. You saw our early announcement of the dividend of 13 sen, will give a return of 247% so far since listing. We aim to maintain our PAT growth rate of 20% per annum over the next 3 years. I know this is a challenge given the current environment. Hopefully with sound fundamentals and strong company performance we can actually achieve these particular numbers.

On improving liquidity, we are looking to ensuring our growth in DATV is at par with leading listed exchanges in the region for the securities market. We use the word leading listed exchanges because we are now Advanced Emerging, so we need to compare and contrast the right exchanges. This would basically be against the performance of Hong Kong, Singapore and Australia.

For the derivatives side, we are targeting to achieve daily average contracts of 50,000 by 2013.

In conclusion, the first half of 2011 has been a very good very good for Bursa, as a matter of fact it is a record breaking first half, where we recorded the highest half year profit over the past 4 years since 2008. Securities trading was strong overall, particularly in the first quarter. The derivatives market saw tremendous improvement, these are the key areas that are firing, as I said earlier, our Islamic Market is still not firing. A lot of work and effort will be done on this particular area, including gearing up the business plan, putting the right people in place, getting ideas from the current staff strength to push towards achieving the third market which is Islamic.

Our focus will continue on these 3 areas, with emphasis on increasing liquidity. We aim to always improve our financial performance with the ultimate goal of increasing value for our shareholders. And last but not least, we remain committed to building a quality market, one which is vibrant as well as secure for trading, listing and investment.

Thank You very much.