

## NAGA Warrants 2017 Ninth Issuance

### Opportunity to Position Ahead for Seasonally Stronger Quarters

By Lawrence Yeo Eng Chien | [lawrenceyeo@kenanga.com.my](mailto:lawrenceyeo@kenanga.com.my)

After three consecutive weeks of inflows, foreign funds offloaded a massive RM477.7m in Malaysian equities last week amid geopolitical tensions and as the US Federal Reserve announced plans for quantitative tightening as early as October 2017 which investors fear may trigger a sell-off in emerging markets due to further outflows. Furthermore, the recently concluded 2QCY17 earnings season has offered little consolation and even showing signs of weakness compared to the previous two quarters.

Nevertheless, the FBMKLCI has already retreated almost 30 points from its recent high and is now nearing the crucial 1,754/1,760 support levels where we expect some degree of bargain hunting to emerge. With market volatility still on the low side (14-day volatility at 3.8%) and candlestick chart beginning to show signs of nibbling, we believe that the current landscape provides investors the opportunity to position ahead for a seasonally stronger 4Q and 1Q.

In today's batch of Naga Warrants, Equity Derivatives will be listing 11 Structured Warrants comprising LBS-CB (strike: RM2.40), DRBHCOMC44 (strike: RM2.00), KERJAYA-CF (strike: RM4.30), VITROX-CE (strike: RM5.00), PETRONM-CF (strike: RM11.00), ECONBHD-CH (strike: RM3.40), YTL-C13 (strike: RM1.50), SENERGYC51 (strike: RM1.90), HAIO-CC (strike: RM5.10), EWINT-CI (RM1.20) and PBBANK-C18 (RM21.50).

#### Structured Warrants Commentary

A number of the Naga Warrants being listed by Equity Derivatives today are being issued to replace expiring structured warrants from previous listings, with an additional few being provided as added tools for investors who wish to trade on the more active news-driven counters. Although we do not have active coverage on any of these stocks, we note that **EWINT-CI**, **ECONBHD-CH**, **LBS-CB** and **VITROX-CE** have consensus **BUY** calls on their underlying stocks. Meanwhile, we also see the potential for **HAIO-CC**, **PETRONM-CF** and **SENERGYC51** to attract some trading interest from both news-flow and charting perspective.

For **HAIO (MP; TP: RM4.40)**, we recently upgraded our target price on the stock from RM4.00 last week after the company announced its 1Q18 earnings. Notably, 1Q18 revenue surged 58%, driven by impressive growth in its MLM division (+81%) as additional sales were generated from newly recruited distributors and higher sales volume from newly launched big-ticket items in its fashion and beauty range of products and recurring sales from its consumer products. Higher margins from the MLM division and a lower effective tax rate also helped boost net profits by 81% YoY, necessitating an upwards revision on our forecasts and target price.

Meanwhile, **PETRONM's (Not Rated)** share price has been on strong run since the start of the year, aided by strong earnings delivery and an abundance of market chatter by retail investors. More recently, with the string of hurricanes affecting oil refining supply, the impact is seen as a temporary boon for Asian refiners and petrochemical players. Gross refining margin remains elevated pre-Hurricane Harvey, even as US-based refiners restarted their operations after a two-week shutdown.

As for **SENERGY (OP; TP: RM1.55)**, the company announced its 2Q18 earnings which came below expectations yesterday, dragged by the stubbornly high fixed cost amidst weak drilling utilisation. Uncertain timing of contract award remained a concern to SENERGY even though tender enquiries were active. We are guided that job bidding market remains competitive but has improved over the past few months. However, the timing of contract award is still uncertain pending approval from the oil majors. The market has already reacted negatively to the earnings announcement. Although yesterday's market reaction signals some risk to SENERGY's technical picture, we see downside support levels of RM1.55 (R1) and the RM1.38/1.40 (R2) technical floor as potential entry points for bargain hunters.

These 11 structured warrants are priced with a range of +/-28% moneyness. All the warrants issued are European Styled Non-Collateralised Cash Settled Warrants with a tenure of 6 months. The gearing ranges from as low as 3.6x to as high as 15.3x and the conversion premium ranges from 11% to 44%. Call-warrants are leveraged instruments. For instance, by participating in PETRONM-CF, an investor is exposed to a gearing of 5.5x. To be more precise, this call warrant offers up to 3.0x effective gearing for traders. Based on our target price of RM11.28 (implying a potential upside objective of 13.9% based on the EOD price of RM9.90). Theoretically speaking, a 13.9% increase in the underlying price should translate to ~42% gain in PETRONM-CF. 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
LBS-CB	6 months	1.88	127.7%	2.40	2.0	0.15	6.27	2.97	43.6%
DRBHCOMC44	6 months	1.62	123.5%	2.00	2.0	0.15	5.40	2.75	42.0%
KERJAYA-CF	6 months	3.83	112.3%	4.30	4.0	0.15	6.38	3.32	27.9%
VITROX-CE	6 months	4.60	108.7%	5.00	6.0	0.15	5.11	2.89	28.3%
PETRONM-CF	6 months	9.90	111.1%	11.00	12.0	0.15	5.50	3.00	29.3%

28 September 2017

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
ECONBHD-CH	6 months	3.13	108.6%	3.40	3.0	0.15	6.96	3.66	23.0%
YTL-C13	6 months	1.39	107.9%	1.50	2.0	0.15	4.63	2.70	29.5%
SENERGYC51	6 months	1.53	124.2%	1.90	2.0	0.15	5.10	2.64	43.8%
HAIO-CC	6 months	4.70	108.5%	5.10	4.0	0.15	7.83	4.02	21.3%
EWINT-CI	6 months	1.08	111.1%	1.20	2.0	0.15	3.60	2.21	38.9%
PBBANK-C18	6 months	20.58	104.5%	21.50	9.0	0.15	15.25	7.46	11.0%

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

Daily Charting – Hai-O Enterprise Bhd (HAIO)



Source: Bloomberg, Kenanga Research

Technical Ratings

Name : Hai-O Enterprise Berhad  
 Bursa Code : HAIO

Key Resistance and Support Levels

R2 : RM 5.74 (161.8% Fib Projection)  
 R1 : RM 5.48 (150% Fib Projection)  
 Closing : RM 5.25  
 S1 : RM 5.00 (Psychological level)  
 S2 : RM 4.39 (Resistance-turned-support)

Theoretical Warrants Price (HAIO-CC)

TWR 2 : RM0.28  
 TWR 1 : RM0.25  
 - : -  
 TWS 1 : RM0.19  
 TWS 2 : RM0.11

Despite the weaker sentiment on the broader market, HAIO's share price has been hitting new highs over the past few months. Currently, HAIO's technical picture remains positive over the short-to-longer term, although the RSI and Stochastic indicators have become overbought. With the RM5.00 key psychological level now taken out, we see an eventual move to RM5.48 (R1) and possibly RM5.74 further up. Any pullback in the meantime, is likely to be represent a healthy pause on an overall uptrend. Immediate support levels RM4.90/5.00 (S1) RM4.39 (S1) are expected to present good opportunities to buy on weakness.

This section is intentionally left blank

28 September 2017

**Daily Charting – Petron Malaysia Refining & Marketing Berhad (PETRONM)**



**Technical Ratings**

**Name** : Petron Malaysia Refining & Marketing Bhd  
**Bursa Code** : PETRONM

**Key Resistance and Support Levels**

R2 : RM 12.10 (138.2% Fib Projection)  
 R1 : RM 11.28 (123.6% Fib Projection)  
 Closing : RM 10.22  
 S1 : RM 10.00 (August high)  
 S2 : RM 9.18 (Trend-line support)

**Theoretical Warrants Price (PETRONM-CF)**

TWR 2 : RM0.25  
 TWR 1 : RM0.21  
 - : -  
 TWS 1 : RM0.155  
 TWS 2 : RM0.12

Earlier in January, PETRONM broke out of its sideways trend at RM4.25 to kick off a strong uptrend. Although its share price has more than doubled since, PETRONM's primary uptrend remains intact while its momentum indicators remain in a bullish state. More recently this past week, PETRONM's share price has been consolidating sideways on low volume. We view this as a healthy pause for breath, before an eventual move next resistance levels at RM11.28 (R1) and RM12.10 (R2). Downside support levels are RM9.90/RM10.00 (S1) and RM9.18 (S2) where investors are likely to buy on dips.

Source: Bloomberg, Kenanga Research

**Daily Charting – Sapura Energy Berhad (SENERGY)**



**Technical Ratings**

**Name** : Sapura Energy Berhad  
**Bursa Code** : SENERGY

**Key Resistance and Support Levels**

R2 : RM 1.93 (June highs)  
 R1 : RM 1.85 (Gap)  
 Closing : RM 1.61  
 S1 : RM 1.55 (20- & 50-day SMA)  
 S2 : RM 1.38 (Trend-line support)

**Theoretical Warrants Price (SENERGYC51)**

TWR 2 : RM0.255  
 TWR 1 : RM0.23  
 - : -  
 TWS 1 : RM0.155  
 TWS 2 : RM0.11

SENERGY's share price has endured a volatile ride over the past year, having rebounded from a low of RM1.33 (December-2016) to as high as RM2.10 (April-2017) only to retreat back to RM1.38 as recently as last month. Although near-term technical outlook signals some risk following yesterday's bearish move, we expect any weakness to be temporary and shallow given the existence of a string of support levels below. Investors who are keen to enter may look to any near-term weakness towards the RM1.55 (S1) or RM1.38 (S2) support levels as potential entry points. Overhead, resistance levels to look out for are RM1.85 (R1) and RM1.93 further up.

Source: Bloomberg, Kenanga Research

## 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.

---

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

---

Published and printed by:

**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)



Chan Ken Yew  
Head of Research

