BURSA MALAYSIA 2009 ANNUAL FINANCIAL RESULTS BRIEFING
(Read in conjunction with PowerPoint Presentation)
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Pn. Nadzirah Abd Rashid, Chief Financial Officer

Dato' Yusli:

Assalamualaikum and a very good afternoon to everyone. I would also like to warmly welcome our participants who are joining by telephone. Presentation slides have been emailed to our analysts and fund managers, and can be downloaded from our website.

This afternoon's briefing will be divided into four parts. Firstly, we will go through an overview of performance. Then, our CFO, Nadzirah, will go through the financial numbers. I will then go on cover the business review, as well as the market outlook. Finally, we will wrap up with a Q&A session.

In terms of the key highlights for 2009, as you can see from the slide, we had a very challenging year. In terms of operating revenue for the year, as you can see, the numbers were slightly below the previous year. However, we saw market conditions improve in the second quarter of last year, and that helped to maintain some measure of performance. We exercised a lot of prudence in terms of our cost management, and last years financial performance was aided largely by controlling our expenses. As you can see, our net profit for the year was RM177.6 million, and this mainly arose from a gain of RM76 million which came from the disposal of a minority share in Bursa Malaysia Derivatives to the CME Group. We are also prosing a final dividend of 9 sen (tax exempt), which will result in a total payout of almost 93% of our operating profit, excluding the capital gain.

As you can see, we remain committed in our objective of rewarding shareholders and delivering value to shareholders. For last year, Total Shareholder Return was almost 59%.

Moving on to the securities market, we started the year, in terms of the KLCI, at 877 points, and this fell lower to 838 points in early March 2009. We then saw a recovery in the second quarter, and we finished the year at 1272 points, an increase of 45% for the year.

Daily average trading value was at its highest during the second quarter, where we saw it exceed RM1.5 billion a day. Market Capitalisation grew more than 50% during the year, and we ended the year at just below 1 trillion ringgit, in terms of market capitalisation for the overall market. We had 14 new listings, which raised a total of RM12 billion, this was more than ten times what we raised during 2008. We also saw an increase in secondary offerings where a total of RM16 billion was raised. This mainly arose from the rights issues from Maybank and Axiata in early 2009.

Arising also from our revamp in our listing guidelines, and the introduction of market making for structured warrants, which reduced time to market for these products, we saw 124 new structured warrants issued during 2009, compared to 81 the previous year. Overall, for the year, velocity remained at 34%, similar to 2008.

For the derivatives market, we had a very good second quarter, similar to the equities market, where we saw more than 29,000 contracts traded every day last year. As you can see, the derivatives market, in terms of total contracts traded, remained roughly the same as the previous year, almost 25,000 contracts per day. With our recent partnership with CME Group, we expect greater accessibility to our products in the future.

The recovery in commodity prices that happened in 2009 worked very well for our FCPO contract, for last year, FCPO volume grew more than 30%, and we ended with about 4 million contracts traded for the whole year, for FCPO. However, FKLI volume declined by over 30%, which reflected lower investor interest and foreign support for the contract. The total number of contracts traded in the year, was similar to 2008.

That's a quick overview of our securities and derivatives market, now I would like to hand over to Puan Nadzirah to follow up on the financial performance.

Puan Nadzirah:

Thank you Dato'. Very good afternoon to all present.

Looking at our performance for the fourth quarter of 2009, we saw a profit after tax and minority interest of RM96 million. This was over 600% higher than the RM13 million profit made during the corresponding period in 2008.

The RM96 million profit was made up of a RM76m capital gain and "normal profits" was only RM20 million for the fourth quarter.

As Dato' alluded to in an earlier slide, the capital gain came about from the disposal of 25% of Bursa's equity interest in Bursa Derivatives to CME. The consideration was satisfied by CME on 30 November 2009 by way of RM1.9 million cash and 76,000 shares in CME Group Inc.

The capital gain of RM76 million is reflected in other income.

Operating revenue for the fourth quarter was RM74 million, up by 17% from the fourth quarter of 2008. The growth was primarily due to improved trading value on the securities market. Daily average value for the quarter was RM1.2 billion compared to RM907 million in the fourth quarter of 2008, resulting in higher equities trading revenue. The derivatives market on the other hand saw a drop in trading volumes, hence lower trading revenue.

Operating expenses were RM52 million in the fourth quarter of 2009, 9% higher compared to the fourth quarter of 2008. The main reason for this increase was the spike in depreciation and amortisation following the launch of Bursa Trade Securities, our new trading platform, at the end of 2008.

Moving on to the financial year, profit for the year was RM178 million, as we have seen earlier, while EPS was 34 sen. Here again, the capital gain contributed RM76m to the bottom line, while "normal profits" were RM102 million. In other words, the Group would have shown about the same amount of profit as in 2008 if the equity disposal had not taken place.

Operating revenue was RM298 million and operating expenses were RM183 million. Both dropped marginally by 2%.

Other income was RM105 million, as a result of the capital gain.

The main contributor to operating revenue continues to come from equity trading; contributing 47% to total operating revenue. Derivatives trading contributed 13% to operating revenue, while stable revenue contributed 35%.

Overall, there isn't much change to the individual revenue categories compared to 2008.

Equities trading revenue increased marginally by 2% to RM139 million, lifted by the increase in effective clearing fees. Total value traded on the market was RM303 billion compared to RM313 billion in 2008. Correspondingly, DAV also dropped marginally from RM1.3 billion in 2008 to RM1.2b in 2009.

Derivatives trading revenue fell by 12% to RM39 million. Only 2 million FKLI contracts were traded in 2009 compared to 2.9 million in 2008. FCPO, as we saw earlier, increased in volume from 3 million in 2008 to 4 million in 2009. The reduction in revenue was due to the drop in the number of FKLI contracts, which more than offset the increase in revenue, due to the increase in FCPO contracts as FKLI contracts trade at a higher trade fees compared to FCPO contracts.

Total stable revenue was RM104 million. The details of this will be covered in the next slide.

Other operating revenue consists of a haircut from interest on collaterals placed by market participants, conference fees, and perusal and processing fees. The decline of 12% to RM17 million was mainly due to lower perusal fees and lower interest from collaterals.

As for Stable revenue, the key items in stable revenue are listing fees, depository services and information services.

Listing fees amounted to RM32 million in 2009, lower by 12% compared to 2008. This was mainly due to lower annual listing fees as a result of a lower market capitalisation of companies used in the derivation of the fees.

Depository services income was higher by RM7 million, mainly as a result of the receipt of past CDS fees in 2009.

Information services and participants' fees were quite stable year on year, while broker services saw a 20% drop from 2008.

To recap, operating expenses reduced by 2% to RM182 million. The largest component of operating expenses are our staff costs. While most of our expenses saw reductions when compared to 2008, we see a differing movement in depreciation and amortisation.

The higher depreciation and amortisation was primarily due to the launch of Bursa Trade Securities at the end of 2008, as I mentioned earlier. The launch of other smaller systems and enhancements to our infrastructure also gave rise to further depreciation.

Overall however, we were very much conscious of our high operating leverage, and we took steps right from the start of the year to reduce our costs. We only did things that really mattered for the market, looked at our internal operations and skimmed off whatever fat we could see. Taking out depreciation and amortisation from the equation, we will actually see a total reduction of RM21 million in expenses.

Looking at the performance ratios, as expected, most of our ratios appear to improve. ROE is at 23%, operating EBITDA margin at 52% and our profit margin is 44%. The ROE, excluding capital gain, was slightly below the 13.8% level that we saw in 2008. Whilst our net profit margin was at the same level at 31%.

The coverage of stable revenue and derivatives income over total operating expenses was 78%. The drop of 1% compared to the coverage in 2008 was a result of the lack of interest in our FKLI contracts as noted earlier.

We saw an increase in our shareholders' funds by 15% to RM840 million in 2009. The increase is largely made up of the capital gain of RM76 million while the rest are due to our normal profits. The capital gain, as mentioned earlier, was largely due to the purchased consideration for Bursa Derivatives in the form of shares. As such, these are not realised cash for distribution.

This brings us to the next item on the slide, where we see an increase in financial resources available for use of RM50 million. The increase has been set aside for distribution, a final dividend which will be tabled at our upcoming AGM. The remaining RM400 million is sufficient for us to cover our other funding requirements.

As mentioned by Dato' earlier, we will be proposing a final dividend of 9 sen, tax exempt, to our shareholders on 29 March. Should this be approved, our total dividend for the year will about 19 sen. Removing the impact of the capital gain, our payout ratio will be 93%, once again over and above our payout policy of 75%.

With this, I will hand over the session to Dato' Yusli for him to share with you Bursa Malaysia's business initiatives and outlook for 2010. Thank you.

Dato' Yusli:

In terms of the immediate future, we will still focus on growing our core businesses, which are the equities and derivatives markets, but with particular focus on areas in which we have an advantage compared to other markets. These are in the area of commodities as well as Islamic markets. The end objective for us is to build a market that is attractive for both Investment, as well as listing and the raising of funds.

Last year, we had a number of initiatives which served to build a stronger foundation to create a more effective market. In the area of products and services, we saw the consolidation of the Main and Second Boards into the Main Market, and we revamped MESDAQ market to become the ACE Market. This was with the aim of creating a more efficient platform for fund raising for issuers. We also launched the Bursa Suq Al'-Sila platform, which was the world's first Murabaha commodity trading platform. We believe this platform will be very useful as we grow our Islamic markets in the future. We also saw a number of sukuk listings take place last year, and I am very happy to announce that we ended the year with the largest number of sukuks, in terms of value, for any exchange in the world last year.

In terms of strengthening liquidity, we introduced market marking as I mentioned earlier for structured warrants and ETF's, we looked at how we could narrow the bid and offer spread that was introduced around the middle of the year. To further facilitate the activity of stock borrowing and lending, we have introduced SBL negotiated trades, to make it more conducive for market players to enter into stock borrowing and lending activities. Towards the end of the year, we launched direct market access (DMA) for our equities market. We anticipate that this will allow for greater accessibility and more liquidity in our equities market.

In terms of trying to internationalise our market further, we have adopted the FTSE criteria for our benchmark KLCI. We have also introduced multi-currency framework for our securities market, so we do expect to see multicurrency products, for example ETFs, to be launched later this year. As you know, we have seen some foreign IPOs come into our market. Again, this is in line with aim to provide more product diversity for investors in Malaysia. Lastly, we entered into the strategic alliance with CME Group towards the end of last year, we believe that this will be very instrumental in developing the derivatives market further.

Going on to 2010, our core focus will still be in the area of liquidity, and bringing more efficiency to the marketplace. Here we are looking at working on the building blocks that I mentioned earlier. We believe there is a lot of scope, given that the capacity within our marketplace for more liquidity in Malaysia.

Again for the derivatives market, as I mentioned earlier, the CME partnership will result in much more opportunity for us to grow the derivatives market. We are also pleased to announce that we are working closely with the industry for the fast tracking of dual licensing by our licensed dealer representatives. Remisiers in the future will be allowed to trade derivatives through our fast track mechanism that we have been discussing with our regulators. We are also working with the CFTC, the regulator in the United States, to enable US customers to trade our FKLI contract as well as to allow our trading participants or futures brokers to market our derivatives products to customers in the United States.

From the partnership with the CME group, we are working towards moving our derivatives products onto the Globex trading platform towards the end of the year in 2010. As you know, we have licensed our FCPO settlement prices to CME for them to create their own US dollar contract. This we believe will further strengthen Malaysia's position as a global price benchmark for CPO.

In the area of Islamic markets, as I mentioned, we are the largest listing destination for sukuks anywhere in the world, and our Bursa Suq Al'-Sila is expected to attract greater participation from international Islamic financial institutions

On the regulations side, in 2009, we worked on enhancing further our corporate governance standards. We issued a guide, as well as conducting awareness programs for directors of listed companies. In terms of disclosure, we have further strengthened requirements for listed companies, and we undertook proactive monitoring and engagement with our listed companies on announcements, to make sure that disclosures are made on a timely basis.

In terms of enforcement, you will see that we have been very active in taking action against companies as well as directors where they have not complied with our rules. Last year, we imposed fines totaling RM3.7 million to more than 70 directors. There was also enforcement action taken against about 65 market participants where we imposed fines of about RM1.5 million.

I already mentioned measures to make capital raising more efficient, through the enhanced framework for our Main and ACE markets, which results in a much reduced time to market for capital raising. In terms of oversight of our intermediaries, our brokers, we are pleased to announce that we have had no major problems in this area. In terms of our market orderliness, again, we believe there are sufficient measures in place to effectively monitor market orderliness in the equities as well as derivatives markets.

In closing, we see outlook for this year to be still fairly cautious. The improvement in economic data is obviously giving more confidence to investors, but I believe the global outlook still looks fairly cautious. The efforts to liberalise the capital market as well as other sectors by the government will help to make Malaysia a more attractive destination for investors, both local and foreign, and we believe this will help the Malaysian financial markets move closer to regional benchmarks.

In terms of outlook for the derivatives market, we believe the continued volatility in commodity prices generally as well as CPO will help sustain the volume of trading in our FCPO contract. We have high hopes for the partnership with CME, and we expect this to strengthen our derivatives market and industry, through efforts such as joint product development, as well as help increase the global visibility of our derivatives products.

For the Islamic market, we plan to expand the reach of the Bursa Suq Al-Sila' Platform, and we want to be very much involved in the efforts to propel Malaysia as a global frontrunner in Islamic Capital Markets.

So ladies and gentlemen, thank you very much for your attention, we would now like to move on to Questions and Answers. Thank You.

Yvonne: Hi, I'm Yvonne from Credit Suisse. Firstly, on the assets front, I noticed that your other investments increased about 90 million, could you please give us some colour on that? Second question, would you be able to provide us the status on your CME tie-up products? Finally, I see that your cash pile is growing very healthily, would there be room for capital management? Because if you compare Bursa Malaysia to its regional peers, in terms of ROE, Bursa Malaysia is quite low.

Dato' Yusli: The first question on other investments, that relates to the CME shares that we obtained in return for selling 25% of our derivatives subsidiary. So, that RM90 million increase represents the value of the CME shares that we own today.

In terms of the launch dates for the CME crude palm oil futures contract, we believe that is on track for the first half of this year, and for us to move onto the Globex platform, we are still looking at the second half of this year, so we are still on track for that.

Capital management, yes we do have some excess cash but, similar to last year, given the current economic scenario globally, we feel that it is probably more prudent for us to hang on to our cash for now, and we will be in a better position to make a decision on this once the whole economic situation settles down, not just in Malaysia but also globally. So there are no immediate plans for the moment for any special dividend.

Announcement: Since that was three questions from the floor, we will open it up to the telephone participants.

Announcement: The first question is from Mr. Khairul from UBS. Please proceed.

Khairul: Thank you Dato' for organising this briefing, just two questions if I may. On your partnership with CME, what is your expectation in the next 1-2 years, in terms of the proportion of derivatives trades coming from this tie up? My second question, on overheads, I noticed in the fourth quarter, there is a slight uptake in terms of market development expenses and also impairment loss on software, could you give more colour on these two items? Going forward, what do you think is the normalised level for these two lines?

Dato' Yusli: First, on the impact of the CME Partnership on the derivatives business. Basically, we are aiming for our derivatives business to double in terms of volume, over a period of about 3 years. At the moment, that is the expectation, we have no basis really, because this is the first time that we are doing it, so we'll have a much better picture of how this will pan out probably towards the end of the year, once we have moved our contracts onto the Globex platform. But, internally, we are looking at doubling our derivatives business over the next three years.

In terms of the overheads in the fourth quarter, maybe I'll let our CFO answer this one.

Puan Nadzirah: Market development expenses were slightly higher in the fourth quarter, compared to the other quarters in 2009, but overall, for the financial year, we still incurred less when compared with the previous year. So going forward, there will be higher expenses incurred on market development and promotions. We have been holding back some expenses in 2009 due to our prioritisation of projects. But, in 2010, the market development expenses should definitely be higher than the 2009 level.

On the impairment loss, we actually made a RM2 million impairment loss on our bond trading platform in the fourth quarter of 2009. This is on the basis that we feel that the platform is not generating sufficient revenue to cover our expenses. So the 2 million was derived on the difference of our carrying value and the grant we received from the Capital Market Development Fund for developing this platform.

Khairul: And on the impairment loss we are expecting that to be a one off in the fourth quarter, and going forward, we shouldn't see any more of this?

Puan Nadzirah: Yes, this is a one time loss.

Announcement: The next question is from Mr. Chris from JP Morgan.

Mr. Chris: Hi Dato', good evening. With regard to the gain on disposal with regards to CME, you still own the shares I believe, and the share price has increased. How are you going to treat this in the first quarter?

Puan Nadzirah: Under the FRS 139, any gain or loss on the CME shares will hit our shareholders fund, it will be a movement in equity, it will not hit our P&L.

Announcement: We'll take 3 questions from the floor.

Question: Could you give us guidance in terms of results for this year? Moving forward, what do we expect from Bursa?

Dato' Yusli: This year, we are targeting revenues to be higher than last year, but, as you've heard during our presentation, last year we actually kept our expenses at a fairly low rate, given the very challenging environment. So this year, we are looking at spending a bit more, especially in terms of market development and business development initiatives, so our costs will also probably increase. That is our expectation. So, in terms of overall performance, we are expecting a fairly similar level of performance from our operations this year.

Question: Dato', just like to follow up on the expenses, and the capex for this year.

Dato' Yusli: We are looking to spend about RM60 million this year in 2010.

Question: This will be largely on market development expenditure and promotions?

Dato' Yusli: No, most of our capex is system related. For this year, the big item we are going to be spending on, will be the work on the Globex system, although we are entering into an ASB arrangement, there is still some investment that we have to make in terms of integrating to our systems, and we are also planning to upgrade our clearing system for our derivatives business. Those are the major items of capex.

Questioner: Any target for the number of IPO's and KPI's?

Dato' Yusli: No, we don't have a target as such, but we understand that as of this week, there are just under 20 companies we believe that have been approved for listing that have not come to the market yet. We also understand that there are about a dozen or so applications which are under review by the securities commission. So this year, assuming all these companies come to the market, we should see a fairly healthy number.

Question: Are there any foreign companies amongst them?

Dato' Yusli: We don't have the details of that but there are a few foreign companies in that list.

Question: Could you comment on the recent backlash against Chinese companies listing here? Could you comment on that?

Dato' Yusli: I'm not quite sure what you mean by backlash, certainly we have been monitoring the performance the foreign IPO's that we've had, so far we've had three Chinese companies, and there has been quite a bit of commentary going on about their performance. I think these companies are no different from any other company that we have on our market, we subject them to the same amount of regulatory supervision, and we expect them to meet all of our listing requirements, as well as all the rules. So, as an exchange, we don't treat them any differently and we expect investors to look at the business case of each of these companies. It's difficult for us to comment on share price performance, it's not within our scope to do so. Companies come to the market for IPO, and after that whether the share price goes up or down is really down to market conditions and investors appetite. What we do see as an immediate challenge is that, obviously, as these companies are not resident in Malaysia, investors may not have a lot of visibility of these businesses. So, we are encouraging them to undertake more engagement with the investor community. For example, we would like them to participate in our research scheme, which we have organised, the CMDF research scheme, and we would also like them to also join, for example, MIRA, the Investor Relations Association. So there are various avenues for companies, not only these, but also other companies, to raise their profile, so that investors can have a much better appreciation of their business model, as well as their prospects going forward. It is of course not surprising that investors are not familiar with their businesses, so perhaps for these foreign companies, they have to do more in terms of profiling themselves.

Yvonne: Can I just check with you what is the foreign shareholding for the stock? I saw in the Bursa announcements that there has been selling by your major shareholder.

Dato' Yusli: I believe it's at about 17% at the moment.

Yvonne: Is that an all time low?

Dato Yusli: It's probably close to that. We've seen a steady decrease. At the peak, if I remember correctly, it was about 44% in 2007.

Julian (Nomura): Can I check on the CME shares that you currently own, I understand there is a lock up period, can you tell us about your intentions? Is there any intention to distribute it back to shareholders?

Dato' Yusli: The CME shares that we own are subject to a 25% sell down every year. At the moment, we have no plans to dispose of the shares. We will look at it at a more appropriate time, but for now we have no plans to sell the shares.

Announcement: Thank you very much for your participation.

Dato Yusli: Thank you all for your presence.

(Ends)