

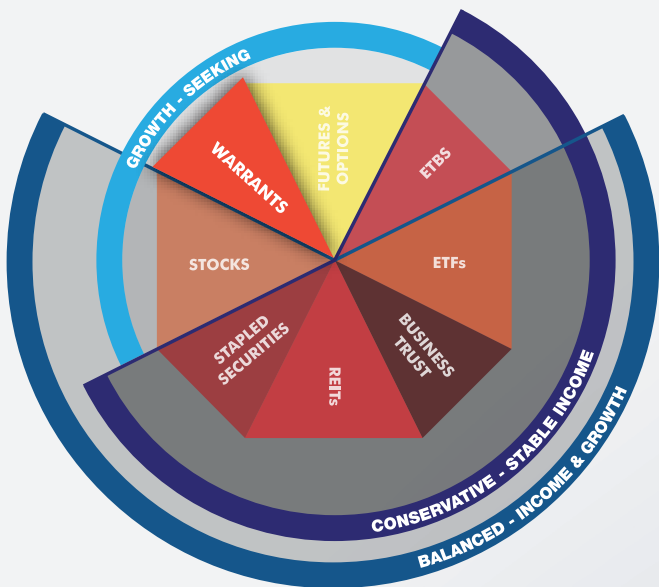
# Leverage your investment exposure at a fraction of the price

## Structured Warrants

Listed on Bursa Malaysia



# WHICH TYPE OF INVESTOR ARE YOU?



Every investor has different goals, and your approach to achieving them depends on your risk/return appetite.

You can find your trading type on this chart and consider products that are suitable for your portfolio.

## WHAT ARE **STRUCTURED WARRANTS**?



Structured warrants are instruments issued by a third-party issuer, namely an eligible broker or financial institution, that give holders the right, but not the obligation, to buy or sell the underlying instrument in the future for a fixed price provided that certain conditions are met.

Structured warrants offer investors an alternative avenue to participate in the price performance of an underlying asset at a fraction of its price, in both bullish and bearish markets.

## WHAT ARE THE TYPES OF **STRUCTURED WARRANTS**?



- **Call Warrants**  
A call warrant is a listed security which gives the warrant holder the right but not the obligation to buy the underlying asset at a pre-determined exercise price within a pre-determined time period. Call warrant holders benefit from upside price movements in the underlying asset.
- **Put Warrants**  
A put warrant is a listed security which gives the warrant holder the right but not the obligation to sell the underlying asset at a pre-determined exercise price within a pre-determined time period. Put warrant holders benefit from downward price movements in the underlying asset.

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## WHY INVEST IN **STRUCTURED** **WARRANTS?**

### **Leverage**

Structured warrants allow investors to gain exposure to an underlying asset e.g. share or index at a fraction of the price of underlying instrument and provides cheaper cost entry to invest. For the same investment outlay, a structured warrant increases the exposure to the underlying asset, thus magnifying the possible returns.

### **Benefit from underlying upside/downside**

- Call warrants - investors can benefit from increase price of underlying assets
- Put warrants - investors can benefit from falling price of underlying assets and also to hedge long positions on the underlying assets

### **Small capital outlay**

Investors can free up capital by buying the call warrants instead of the underlying assets, yet maintaining an equivalent level of exposure to the underlying assets.

### **Liquidity**

All structured warrants listed on Bursa Malaysia have market makers to provide continuous bid/ask prices. Investors can buy and sell structured warrants anytime during the trading hours.

## Access to diverse market

Structured warrants provide alternative avenues for investors to participate in local & foreign-listed equities, basket of shares e.g. ETFs and local & foreign market indices.

## Limited downside losses

The feature of a structured warrant gives investors profit opportunity with loss limited to the amount paid for investing in the structured warrants.

## Lower cost











The transaction cost and commission is relatively lower as compared to share investment because of smaller capital outlay.

## Company Warrant vs Structured Warrant

	Company Warrant	Structured Warrant
Issued by	Listed company	Eligible financial Institution
Underlying asset	Shares of the company	Shares, Exchange Traded Funds, Indices
On exercise	Company will issue additional shares to meet obligations. This results in share dilution.	Does not result in dilution of the underlying shares
Maturity period	Up to 10 years	6 months to 5 years
Market Makers Presence	No	Yes
Settlement	The terms and conditions of warrants are defined by the issuers	
Stock Code	Quoted as xxx-Wx	Call Warrant : Quoted as xxx-Cx Put Warrant : Quoted as xxx-Hx

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## WHAT ARE THE FACTORS INFLUENCING THE PRICE OF **STRUCTURED WARRANTS**?

No.	Influencing Factors	Impact on Call Warrant Price
1	Underlying Asset Price	
		
2	Time to Maturity (remaining life of a warrant)	
		
3	Volatility	
		
4	Interest Rate	
		
5	Dividend	
		

## Impact on Put Warrant Price

## Explanation



When the underlying price moves higher, call warrant price tends to rise, while put warrant price tends to decrease.



As the underlying price goes lower, put warrant price tends to rise, while call warrant price tends to decrease.



Structured Warrants value tends to decrease as it moves closer to expiry. This is called time decay.



Indicates market expectations for the volatility of the underlying within a future period of time. The higher the volatility, the higher the expected volatility of the underlying price. Similarly, a lower volatility corresponds to a lower warrant price.



Movements of interest rate represent the funding cost involved in investing in warrants compared to the underlying instruments. When the interest rate increases, a call warrant implies funding cost savings compared to buying the underlying directly and hence, the call warrant becomes more valuable and thus, its price tends to rise. Conversely, a higher interest rate implies a lower price for a put warrant.



Issuer normally takes into account the expected dividend from the underlying in determining the issue price of a warrant. If the dividend payout is in line with investor's expectation, warrant price will be unaffected. However, if the dividend payout is more than expected, the underlying price will decline more than expected on ex-dividend date, and warrant price may immediately follow suit to decline (for call warrant) or rise (for put warrant).



## FEATURES OF STRUCTURED WARRANTS

**Underlying instrument** - behind every warrant, there is an underlying instrument. On Bursa Malaysia, the underlying can be a share, basket of shares (e.g. ETF) or index.

**Expiry date** - the last date on which the warrant may be exercised. This runs from the date of issuance of the warrant until its expiry date which can range from 6 months to 5 years. A warrant is worthless if it is not exercised by the expiry date.

**Strike / Exercise price** - the agreed price to be paid, calculated based on the conversion ratio to exercise the warrant.

**Exercise styles** - typically, American or European styles. The American style allows warrant to be exercised by holders so long as the underlying security price is higher than the exercise price (for call warrant) or lower than exercise price (for put warrant) at anytime before expiry. European style warrant can only be exercised at expiry.

**Conversion ratio** - number of warrants required in exchange of one unit of the underlying instrument if the warrant is exercised.

**Settlement methods** - a warrant may be delivered in the form of the underlying instrument or via cash. The former involves transferring the underlying instrument to the investor's account whereas cash settled warrants are settled through cash payment by the warrant issuer to the holder. Cash settlement is more common in Malaysia.

**Effective Gearing** - indicates the % change in the price of a warrant relative to a 1% change in the underlying. Take for example a warrant with an effective gearing of 10x. This means, the warrant should move approximately 10% for a 1% movement in the underlying. A higher effective gearing generally translates to a higher profit potential and also a higher level of risk.



## WHAT ARE THE RISKS IN INVESTING IN **STRUCTURED WARRANTS?**



The underlying asset may fail to perform as you have expected and therefore, affecting the market value of the warrant.

When you trade warrant, the maximum amount at risk is your full investment (plus transaction costs) in the warrant.

The market value of a warrant is susceptible to other prevailing market forces including the demand and supply of the warrants.

Warrants have a fixed life span and they may become worthless upon expiration.

Time decay i.e. time value diminishes as time goes by for a warrant. The rate of decay increases as the date of expiration gets closer.

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## GETTING READY TO TRADE **STRUCTURED** **WARRANTS**

How to prepare or improve your trading skills as a warrant trader?

- Remember that warrants are leveraged instruments.
- Know both the warrant and the underlying instrument.
- Improve knowledge on warrants.
- Have a view on market direction.
- Determine your investment and risk horizon.

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## GETTING **STARTED**

### How and where to start trading in structured warrants?

Structured warrants trade just like stocks, subject to the same trading, payment and settlement rules (T+2).

You need to open a CDS account and a trading account with a Participating Organisation i.e. a stockbroking firm registered in Malaysia, if you do not have one.

For more information, visit [www.bursamalaysia.com](http://www.bursamalaysia.com), [www.bursamarketplace.com](http://www.bursamarketplace.com) and the respective Structured Warrants Issuers' websites.

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