BUSINESS SEGMENTAL REVIEW

Stockbroking

In 2023, the Stockbroking division strategically enhanced its operational efficiencies, building upon the progress made in 2022 to navigate challenging market conditions effectively and achieve stability.

The division's concerted efforts, including the recovery of credit loss expense in the prior year, yielded significant results, with PBT surging from RM2.5 million in the previous year to RM16.1 million. Despite market challenges, the division upheld its market share, rising from 10.2% in the previous year to 10.5% as at FY2023.

The completion of its algorithmic trading platform in early 2023 marked a significant milestone. Currently utilised by the division's proprietary trading team, the platform has undergone continuous enhancement, incorporating valuable machine learning capabilities. Although the equities market remained bearish for most of the year, impacting its trading profitability, a turnaround in the last quarter saw improved performance from its traders. With this, the Stockbroking division is positive on the upcoming development of this platform, as it look forward to rolling it out to its clients this year.

Meanwhile, its Equity Derivatives department continued its strong performance in 2023. The team's issuance of Hang Seng index-related warrants saw active participation from investors, bolstering its market presence, and making Kenanga-issued structured warrants one of the top performing warrants in the market. Beyond structured warrants, the team has also been diligently working towards creating bespoke Over-the-Counter strategic solutions to meet the unique financial needs of corporates and strategic equity owners. The year 2023 marked significant strides in this direction, solidifying its commitment to providing client-centric solutions.

The Group's joint venture partnership with Rakuten Securities Inc., also delivered positive progress, especially with the organisation's income diversification strategy through extension of foreign trading capabilities. In 2023, Rakuten Trade added trading access to include the Hong Kong Exchange and was the first (1st) in Malaysia to offer US Fractional Share Trading services. As a result, its foreign market brokerage income increased by 57.9% Year-on-Year. The account opening process was also revamped to improve customer experience. As of December 2023, its Malaysian trading accounts stood at 276,163 since launch, showcasing continued growth. There was also a steady increase in AUA, reaching RM4.1 billion in FY2023, compared to RM3.6 billion the previous year. Additionally, its US trading accounts recorded an increase from 27,830 accounts in 2022 to 39,687 in 2023.

Looking ahead, the Stockbroking division is planning for further branch consolidation, in line with the Group's digitalisation strategy and to improve efficiencies, while maintaining overall customer experience. The division will also continue efforts to enhance investor literacy through public education and outreach for both existing and prospective customers, with a richer and more comprehensive series of marketing and educational content.

In addition to these strategic initiatives, the division's commitment to excellence continues to be recognised through notable industry accolades, which include recognitions at the prestigious Bursa Excellence Awards 2023. The awards include 'Best Overall Equities Participating Organisation (Champion)', 'Best Retail Equities Participating Organisation (Investment Bank) (Champion)', and 'Best Online Retail Participating Organisation (Champion)'.

Investment Banking

Amidst the persistently challenging macro environment in 2023, the Investment Banking division registered a PBT of RM5.7 million compared to RM15.8 million the previous year.

In the equity capital market, the division successfully listed Synergy House Berhad in the second (2nd) quarter of FY2023 ("**2Q2023**") and SkyWorld Development Berhad in the third (3rd) quarter of FY2023 ("**3Q2023**") on the ACE Market and Main Market of Bursa Malaysia Securities Berhad, respectively. Notably, the Initial Public Offering ("**IPO**") for SkyWorld Development Berhad, which the division singlehandedly raised RM320.0 million for, marked the third (3rd) largest IPO fundraising in 2023.

In addition, it assumed roles as Joint Underwriter and Joint Placement Agent for Plytec Holding Berhad's ACE Market listing in the fourth (4th) quarter of FY2023 ("**4Q2023**"), and presently, the division has initiated filings for two (2) IPOs slated for listing in the second (2nd) half of 2024 ("**2H2024**").

Furthermore, it took on the role as Joint Bookrunner for Pavilion REIT's private placement of RM720.0 million, earmarked to partially finance its RM2.2 billion acquisition of Pavilion Bukit Jalil from Malton Berhad. Additionally, the division also acted as Joint Placement Agent in Al-'Aqar Healthcare REIT's private placement of RM138.0 million, primarily for the repayment of borrowings.

As a result of its efforts in the equity capital market, Kenanga IB also ranked #3 in terms of equity and rights offerings by Bloomberg.

In 2023, its Debt Capital Markets department ("**DCM**") established seven (7) new programmes, assuming key roles as Sole Principal Adviser, Lead Arranger, Lead Manager, and Facility Agent. Notably, two (2) of these programmes, namely Singer (M) Sdn Bhd's RM300.0 million Medium Term Note ("**MTN**") programme and SkyWorld Capital Berhad's RM300.0 million Islamic MTN programme, received ratings from MARC Ratings Berhad. This contributed to the division's joint second (2nd) runner-up position in MARC Ratings Berhad's League Table, within the Issue Count Category.

Moreover, the division also served as Joint Lead Manager and participated in the book-building exercise for several government-guaranteed sukuk programmes, such as Prasarana Malaysia Berhad's RM1.5 billion sukuk issuance, Perbadanan Tabung Pendidikan Tinggi Nasional's RM1.5 billion sukuk issuance, and Danainfra Nasional Bhd's RM780.0 million sukuk issuance.

On the Merger & Acquisition front, the division served as Independent Advisers for numerous mergers and acquisitions, notably the privatisation of Boustead Holdings Berhad; Sunway REIT's acquisition of six (6) Giant hypermarkets; Malaysia Building Society Berhad's acquisition of Malaysian Industrial Development Finance Berhad; CapitaLand Malaysia Trust's acquisition of Queensbay Mall in Penang; the privatisation of UMW Holdings Berhad; and Pelikan International Corporation Berhad's disposal of German-based Pelikan Group GmbH to Holdham SAS.

In the face of a rising interest rate environment, the Corporate Banking unit has maintained a prudent approach to expanding its loan portfolio. With a focus on loan assets quality, the unit has steadily grown its portfolio, which currently stands at RM598.0 million as at FY2023.

Within the Islamic capital markets space, the Islamic Markets team within the division, supported by its Shariah Committee, took on the role of Shariah Adviser for the pre-IPO Shariah screening of both Synergy House Berhad and SkyWorld Development Berhad. Following the successful application submitted to the Securities Commission Malaysia, both companies were granted the status of 'Shariah compliant IPO' accordingly.

In addition, the team continues to provide Shariah advisory services for Kenanga Investors Berhad's Islamic funds and private mandates. For instance, it was appointed as the Shariah adviser for the newly launched Kenanga Islamic Asia Pacific (ex-Japan) Total Return Fund.

The Shariah Committee also remained actively engaged as the Shariah Adviser for sukuk programmes initiated by DCM clients. Furthermore, they worked closely with the Facility Agency team to streamline subsequent issuances for other DCM clients. Looking ahead, Islamic Markets is poised to extend its Shariah expertise to support any ESG initiatives within the Group, including providing guidance on potential Shariah-compliant Green/ sustainable and responsible investment sukuk deals for DCM clients.

Meanwhile in FY2023, Group Treasury realised a loss of RM1.8 million before tax as net income decreased sharply due to lower net interest amid a high deposit rate environment and strong competition in the deposit market. Although government bonds delivered a higher return in 2023, Group Treasury remained prudent in its trading positions, and the Group's liquidity ratios also remain healthy and in compliance with regulatory liquidity requirements. Given the expected path of policy interest rates, a peak in interest rates presents an opportunity for investors, and moving forward, there will be a higher contribution from fixed income activities. Moreover, Group Treasury will persist in diversifying its product portfolio, particularly in forex, with the aim of enhancing profitability and increasing sales volume.

Asset and Wealth Management

The Asset and Wealth Management division of the Group comprises Kenanga Investors Berhad ("**KIB**"), Kenanga Islamic Investors Berhad ("**KIIB**"), and Eq8 Capital Sdn Bhd (Formerly known as i-VCAP Management Sdn Bhd). Together, these entities form Kenanga Investors Group ("**KIG**"). Complementing these entities are the KIBB Digital Investment Management and Wealth Management units, extending a suite of offerings that encompasses conventional collective investment schemes, robo-advisory services, portfolio management, and a spectrum of alternative investments.

Despite the downtrends in the market, the overall Group's Asset and Wealth Management division recorded exceptional growth in FY2023, with a PBT of RM58.7 million compared to the PBT of RM54.2 million in the previous year. These results were due to significantly higher earnings from management and performance fees resulting from the ongoing expansion of KIG's business and widening of its client base through multi-segmental products and services targeted individually at mass-retail, sophisticated investors, ultra-high-net-worth and corporate institutional investors.

In 2023, KIG successfully launched the Kenanga Islamic Asia Pacific (ex-Japan) Total Return Fund. This strategic move expanded its suite of innovative investment solutions to address the escalating demand for regional exposure in the Asia Pacific (ex-Japan) market. The Fund provides investors with a distinctive avenue to capitalise on the region's economic growth, driven by factors such as increased global integration and rising affluence. This solidified KIG's position as a premier provider of Shariah-compliant investment solutions in the dynamic landscape of the Asia Pacific market.

Continuing the Group's ESG trajectory, KIG completed comprehensive screenings for its fixed-income stocks and sector-specific assessments for equities, with a heightened focus on sectors bearing elevated ESG risks. Since aligning with the Malaysian Code for Institutional Investors in 2017, KIG's engagement approach has transitioned from basic awareness initiatives to fostering substantive, two-way discussions with investee companies. These engagements center on enhancing sustainability practices and formulating strategies beneficial to both entities and the broader economic and social spheres. KIG's current strategic emphasis lies in the management of transition risks associated with the recalibration towards a green economy, reaffirming the Group's unwavering commitment to responsible and sustainable investing.

KIG continues to expand its network of licensed unit trust and private retirement scheme consultants which has grown to over 5,200 advisers in 2023, making them the second (2nd)-largest distribution force in the industry. Furthermore, its strategic presence across Malaysia is bolstered by its fourteen (14) regional offices with recent relocations to newer premises in Kota Damansara, Ipoh, Kluang and Kenanga Tower itself.

For the seventh (7th) consecutive year, KIG was affirmed an investment manager rating of IMR-2 by Malaysian Rating Corporation Berhad, since being first rated in 2017. The rating considers KIG's well-established investment processes and sound risk management practices. As at end-June 2023, most of KIG's funds had performed better than benchmarks and were comparable to peers.

It continues to be recognised for its consistent top performance. In 2024, the LSEG Lipper Fund Awards Malaysia 2024 awarded KIB under the following categories, Kenanga Malaysian Inc Fund for 'best Equity Malaysia Diversified – Malaysia Pension Funds over 10 Years', and Kenanga Diversified Fund for 'best Mixed Asset MYR Flexible – Malaysia Pension Funds Awards over 10 Years'. The Hong Kong-based Asia Asset Management's 2024 Best of the Best Awards awarded KIB the following awards; 'Malaysia Best Equity Manager', 'Malaysia Best Impact Investing Manager', 'Best Impact Investing Manager in ASEAN', 'Malaysia Best House for Alternatives', 'Malaysia Most Improved Fund House', 'Malaysia Best Investor Education', 'Malaysia CEO of the Year' and 'Malaysia CIO of the Year'.

Despite market volatilities over the past four (4) years, KIG's steadfast commitment to sustainable performance, value-driven product suite, and exceptional customer service has cultivated strong customer satisfaction and loyalty. Looking ahead, KIG aims to build on this success by expanding wealth protection solutions, including insurance and private trust. KIG will also enhance client service through nationwide branch expansion, digital channel improvements, and strengthening its agency force. With a robust multi-segment and multi-product framework, an ESG Blueprint, and an enduring commitment to sustainability, KIG is well-positioned to deliver lasting value to investors.

Listed Derivatives Business

In the year under review, our Listed Derivatives Business arm, Kenanga Futures Sdn Bhd ("**KFSB**") recorded remarkable achievements across the business, including a new record high in revenue, securing the number one market position in terms of execution market share on Bursa Malaysia Derivatives Berhad ("**BMD**"), and achieving unprecedented profitability numbers that were the highest in more than a decade. The year 2023 also marked the completion of KFSB's three (3)-year ASCENT 2021 – 2023 Blueprint which had been the driving force behind its achievements this year.

KFSB's achievement in 2023 was also significant as it achieved a record high of 9.7 million contracts (2022: 9 million) despite the moderation in the overall BMD contract volume which declined by 6.8% to 17.8 million contracts (2022: 19.1 million). In line with this performance, KFSB recorded a PBT of RM6.2 million compared to RM2.1 million in the previous year.

This year also saw KFSB launch a new Order Management System and planned for new access into other global exchanges, underscoring its commitment to business growth and operational excellence.

In 2023, KFSB further strengthened its relationships with its counterparts in the US America, Europe, Singapore, and Hong Kong. KFSB also proudly served as a main co-sponsor for the Women in Finance Asia Awards 2023, alongside esteemed companies such as Blackrock, Instinet, and Citadel, that was held in Singapore and hosted by Markets Media. Back home, KFSB continued to build on its retail client base, in line with its objective of Building A Smart Derivatives Trading Community. Through its annual nationwide retail campaigns - Gateway to the Futures, Passport to the Futures and Grow Your Futures - KFSB sought to encourage greater retail participation in the trading of CME Group and BMD products. Separately, KFSB had also continued with its popular online and offline public outreach and education efforts.

Building upon its commitment to excellence and industry leadership, KFSB has also garnered recognition at the prestigious Bursa Excellence Awards 2023. Among the accolades received were 'Best Overall Derivatives Trading Participant (Champion)', 'Best Trading Participant Commodity Derivatives (Champion)', and 'Best Institutional Derivatives Trading Participant (Champion)'.

In 2024, KFSB is set to embark on a new strategic journey with a new three (3) year business Blueprint, THRIVE 2024 – 2026. In the coming years, KFSB will continue to strive to achieve its business vision and objectives, with a specific emphasis on diversifying the sales and marketing approach, boosting the scalability of current product offerings, refining its infrastructure and exploring potential opportunities in the derivatives market.

RISK MANAGEMENT

Building business versatility, operational agility and resilience continues to be the core fundamentals that drive our risk management approach in this increasingly sophisticated and dynamic trading, financing, and digitalised financial services environment. Operating in this highly uncertain and volatile recovery post-pandemic phase, we remained well-prepared and positioned to navigate through the challenging risk landscape, seizing every opportunity that presents prospects for a sustainable operation and growth.

We adopted a disciplined risk management approach in FY2023 by remaining highly selective in our credit lending strategy, and maximising sustainable growth and performance. In light of the greater interdependence of digital networks, cybersecurity is an integral emerging operational risk area for the Group. Kenanga Group continued to invest in risk infrastructure and digital technologies, aimed at improving the governance and risk management capabilities, enhancing cyber-resilience through modern technologies and solutions, and meeting regulatory expectations.

Managing 'Climate Change Risk' is core to our sustainability practices. We take a holistic and integrated risk-based approach in addressing the multi-dimensional implications of climate change risk, including incorporating climate change risk drivers across credit, market, liquidity, operational and reputational risks. We ensured that we continue to deliver on our sustainability commitments to create a positive impact and value for all stakeholders. Considering these wide-ranging and significant implications of climate change risks on our portfolio, we strive to develop and enhance our Climate Change Risk Management Framework to maintain robust risk governance and practices supported with relevant and effective policies, procedures and methodologies. This includes integrating climate change risk management within the responsibilities of the relevant risk board and committees, driving capacity building for climate risk scenario analysis and stress testing, and building capability to facilitate quantification of financed emissions of carbon-intensive sectors in our lending portfolios.

More information on Risk Management and Internal Controls can be found on pages 111 to 115 of this Annual Report.