

# STRUCTURED WARRANTS

## Why **Invest** in Structured Warrants



Leverage effect with  
no margin call



Warrant liquidity provided  
by Affin Hwang Investment  
Bank Berhad



Opportunity to profit from  
bull and bear markets



Low capital outlay



Limited losses



Low transaction cost

Out think. Out perform.



**AFFIN HWANG**  
INVESTMENT BANK

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# Technical terms in the Structured Warrant Markets

## Breakeven Price

If you intend to hold your Structured Warrants until expiry, the breakeven price is the underlying share price which results in neither a gain nor a loss.

$$\text{Breakeven Price for a CALL Warrant} = \frac{\text{Exercise Price} + (\text{Purchase Price} * \text{Exercise Ratio})}{1}$$

$$\text{Breakeven Price for a PUT Warrant} = \frac{\text{Exercise Price} - (\text{Purchase Price} * \text{Exercise Ratio})}{1}$$

*\*Purchase Price = the amount paid by the investor for the purchase of one (1) unit of the Structured Warrant.*

## Delta

Delta is an indicator that measures the relationship between the price of a warrant and the price of the underlying security.

$$\text{Delta} = \frac{\text{Change in Warrant Price}}{\text{Change in Price of Underlying share price}}$$

## Gearing

Gearing is the ratio of the share price to the warrant price and represents the leverage that the structured warrants offers.

$$\text{Gearing} = \frac{\text{Price of Underlying Asset}}{\text{Structured Warrant Price} * \text{Exercise Ratio}}$$

## Effective Gearing

Effective gearing is the estimated percentage in the structured warrant price relative to a 1% change in the price of the underlying security.

$$\text{Effective Gearing} = \text{Gearing} \times \text{Delta}$$

Example	
Price of Underlying Asset	RM12
Structured Warrant Price	RM0.15
Conversion Ratio	8
Delta	0.65

$$\text{Gearing} = \frac{12}{(0.15 \times 8)} = 10.00$$

$$\text{Effective Gearing} = 10.00 \times 0.65 = 6.5\%$$

*\*For every 1% movement in the underlying security, the price of the structured warrant is expected to move by 6.5% in the same direction*

## Cash Settlement upon expiry of the Structured Warrants

Structured warrants that expire in the "In-The-Money" are automatically exercised by Affin Hwang Investment Bank Berhad (AHIBB). AHIBB will make payment to the structured warrants holders within seven (7) market days from the expiry date.

$$\text{CALL Warrant} = \frac{(\text{Settlement Price}^* - \text{Exercise Price})}{\text{Exercise Ratio}}$$

$$\text{PUT Warrant} = \frac{(\text{Exercise Price} - \text{Settlement Price}^*)}{\text{Exercise Ratio}}$$

*\*Settlement price= the average closing price of the underlying security for the five (5) market days prior to and including the market day immediately before the expiry date.*

# Key Features of Structured Warrants

- 1. Underlying Security** - Structured warrants are a type form of derivative as they derive their value from the underlying security. On Bursa Malaysia, the underlying can be a share, Exchange Traded Fund (ETF) or index.
- 2. Expiry Date** - The lifespan of structured warrants is limited, and they will expire on a specific date.
- 3. Exercise Style** - American-style structured warrants can be exercised at any time prior to and on the expiry date, while European-style structured warrants can only be exercised on the expiry date. European-style warrants is the most common in Malaysia.
- 4. Conversion Ratio** - A structured warrant with a conversion ratio of 10:1 means that 10 structured warrants provide exposure to 1 underlying security.
- 5. Exercise Price** - The price at which an underlying security can be purchased (in the case of a call warrant) or sold (in the case of a put warrant).
- 6. Settlement methods** - Upon exercise or expiry, structured warrants may be settled in cash or physical delivery of the underlying security. Cash settlement is the most common in Malaysia.

# Risks Associated with trading Structured Warrants

## Market Risk

Similar to other investments in the securities market, the market value of structured warrants depends on prevailing market forces including supply and demand of the structured warrants.

## Leverage/ Gearing

Structured warrants are leveraged instruments. Leverage is a “double-edged sword” which can magnify gains as well as losses. Small changes in the value of the underlying security result in larger changes in the value of the warrant.

## Limited Life Span

Structured warrants have a limited life span (6 months to 1 year).