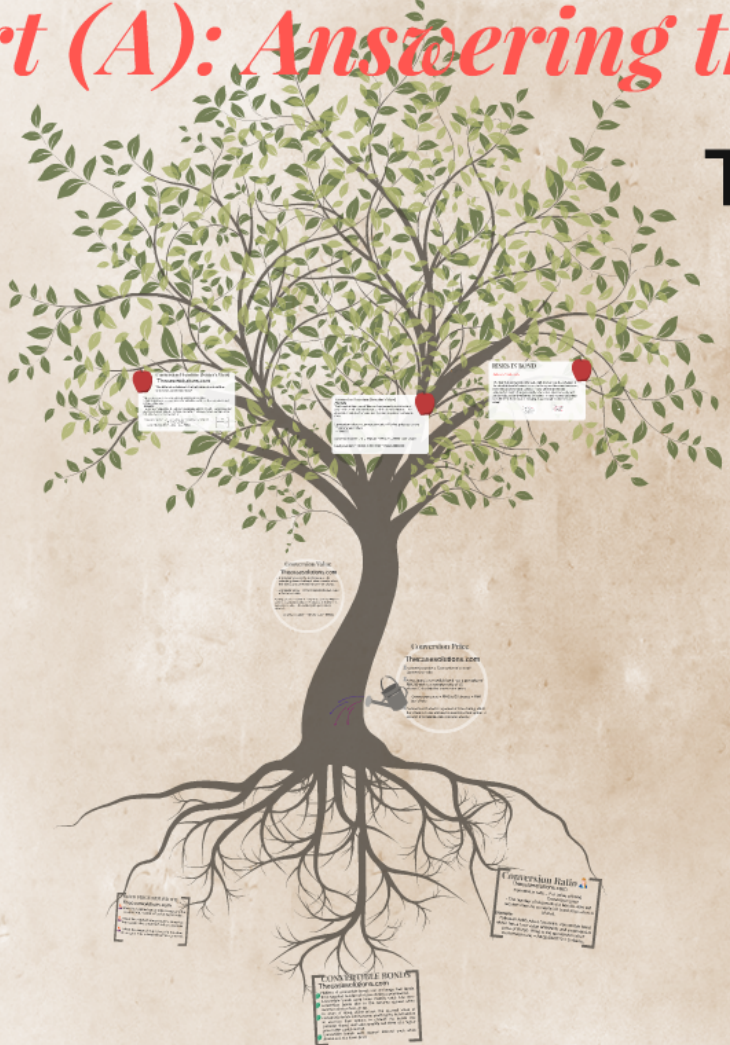


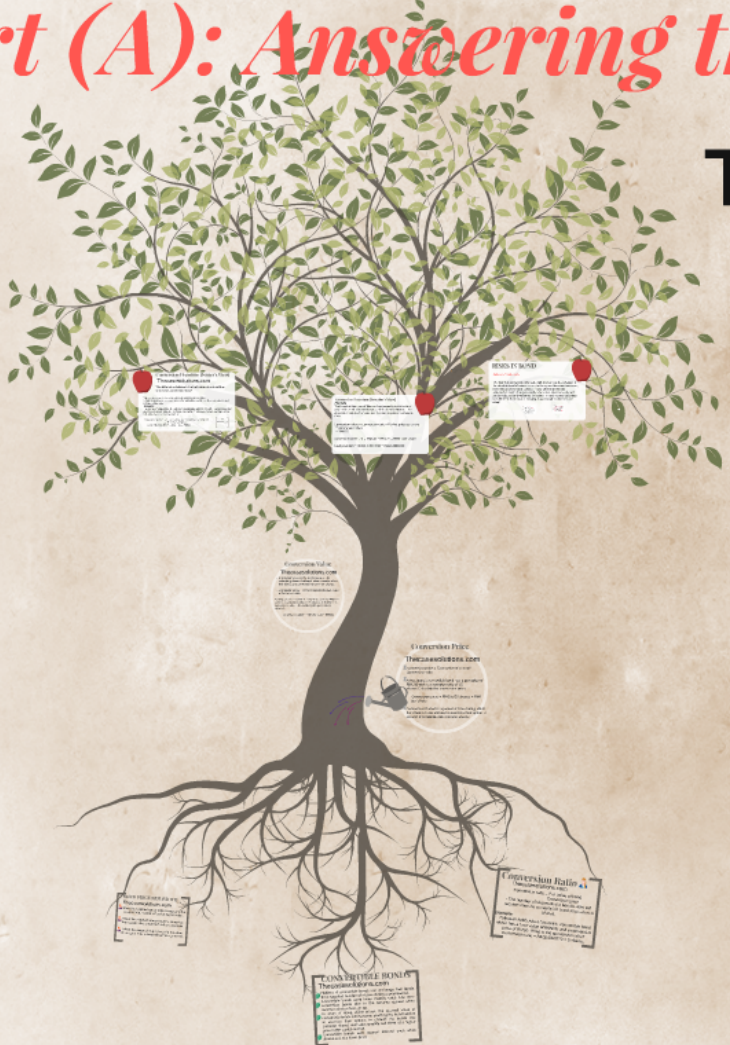
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BOND PRICE BEHAVIOUR

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When the required rate of return is equal to the coupon rate, a bond will sell at its par value.







When the required rate of return is more than the coupon rate, a bond will sell at a discount.



When the required rate of return is less than the coupon rate, a bond will sell at a premium.

CONVERTIBLE BONDS

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-  Holders of convertible bonds can exchange their bonds for a specified number of shares during a given period.
-  Convertible bonds carry lower interest rates than non-convertible bonds due to the benefits gained when common share prices go up.
-  In times of rising share prices, the accrued value of convertible bonds will increase, enabling the bond holders to exercise their options to convert the bonds into common shares and subsequently sell them at a higher price in the capital market.
-  Convertible bonds earn coupon interest even when shares sell at a lower price.

Conversion Ratio



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Conversion ratio = $\frac{\text{Par value of bond}}{\text{Conversion price}}$

- The number of shares that a bond holder will receive when he converts his bond into common shares.

Example:

Zulhasan holds Abad Dinamik's convertible bond which has a face value of RM100 and a conversion price of RM20. What is the conversion ratio?

Conversion ratio = $\text{RM100}/\text{RM20} = 5$ shares

Conversion Price

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📌 Conversion price = Face value of a bond/
Conversion ratio

📌 Arina Juara's convertible bond has a par value of RM100 with a conversion ratio of 25 shares. Calculate the conversion price.

Conversion price = $\text{RM}100 / 25 \text{ shares} = \text{RM}4$
per share

📌 Conversion Period is a period of time during which bond holders are allowed to exercise their option to convert their bonds into common shares

Conversion Value

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- Conversion value is the market value of the underlying shares that bond holders receive when their bonds are converted into common shares.
- Conversion value = Current market price per share × Conversion ratio

Example: Laser Berhad's convertible bond of RM100 carries a conversion ratio of 20 shares. Determine its conversion value if the market price per share is RM5.50.

$$\text{Conversion value} = \text{RM}5.50 \times 20 = \text{RM}110$$



Conversion Premium (Issuer's View)

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The difference between market value of convertible bond and conversion value

Two approaches are used to calculate conversion premium.

1. Current market price base (price of a convertible bond less the conversion value)
2. Face value base

Example:

The current market price of Angkasa's convertible bond is RM120. The company has set the conversion ratio as 15 shares. Currently, Angkasa's share is selling at RM6. Calculate the conversion premium.

$$\begin{aligned}\text{Conversion value} &= \text{Conversion ratio} \times \text{Market price of share} \\ &= 15 \times \text{RM6} = \text{RM90} \\ \text{Conversion premium} &= 120 - 90 = \text{RM30}\end{aligned}$$

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Example

SS Dynamic has issued a convertible bond with a face value of RM100. The bond's conversion value is RM82. What is the conversion premium?

Conversion premium = RM100 - RM82 = RM18

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Example 

SB Dynamic has issued a convertible bond with a face value of RM100. The bond's conversion value is RM82. What is the conversion premium

$$\text{Conversion premium} = \text{RM}100 - \text{RM}82 = \text{RM}18$$