Investor Education

Equity Linked Note

What is an Equity Linked Note?

An Equity Linked Note ("ELN") is a yield enhancement structured product linked to the performance of underlying stock.

Key Features

- The note is normally issued at a discount. There is no coupon payment during the life of the transaction.
- The note lifespan is at least 2 weeks or above and at most 12 months (negotiable with issuer).
- Investors will receive 100% of notional amount if the underlying stock price closes at or above strike price on the final observation date.
- If the underlying stock price closes below strike price on the final observation date, investors will receive physical delivery of the underlying stock at the strike price where physical settlement is applicable to the underlying stock.

Payoff Illustration

Investor should note that the below example is prepared for illustrative purposes only and do not constitute an offer or solicitation of any investment.

Sample Product Terms	
Notional amount	$1,000,000
Tenor	6 months
Currency	US$
Yield	11.23% p.a.
Underlying stock	Stock A
Initial fixing level	$350
Strike price (90% of initial fixing level)	$315
Note issue price	94.5%

Scenario 1: Closing Price of the Underlying Stock ≥ Strike Price (At Final Valuation Date):

For Cash Settlement
The investor shall receive a cash amount by redeeming the note at par on the maturity date, i.e. $1,000,000.

Scenario 2: Closing Price of the Underlying Stock < Strike Price (At Final Valuation Date):

For Physical Delivery Settlement
Number of shares to be delivered:
= notional amount / strike price
= $1,000,000 / $315
= 3,174.60 shares (fractional share of 0.6 will be settled by cash based on the closing price)

For Cash Settlement
Assuming the closing price of the underlying stock is $280, the cash amount to be delivered:
= notional amount x (closing price / strike price)
= $1,000,000 x ($280 / $315)
= $888,888.89 (a realized capital loss would be ~$56,111.11 (=$888,888.89 - $945,000) against the notional amount)

Scenario 3: Worst-Case Scenario

Under the worst-case scenario, the investor may lose all his/her initial invested amount in the event of the issuer's default, or the value of the underlying stock drops to zero.

Additional Product Features and Variations

- A Knock-out ("KO") barrier can be introduced to an ELN. In such case, the product is named as Knock-out Equity Linked Note ("KOELN"). The KO observation frequency is normally continuous (i.e. intraday observation) or daily based on the closing price of the underlying stock.
- ELN may be offered by linking to the worst-performing underlying stock(s) in a basket ("Worst Performer"). In such case, the product is named as Worst-of Equity Linked Note ("WOELN"). The determination of the KO event and maturity payoff are based on the Worst Performer.

Disclosure of Risk Factors

ELN may involve some or all the following risks:

- Issuer's credit risk
- Market risk
- Interest rate risk
- Foreign exchange risk
- Reinvestment risk
- Liquidity risk
- Limited secondary market

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