

24 July 2018

Financial Services | Exchanges

## Singapore Exchange

**Buy** (Maintained)

### Respectable FY18 SADV

Maintain BUY and TP of SGD9, 20% upside. SGX will be releasing its FY18 results on 27 Jul 2018. Bloomberg data indicated FY18 SADV of SGD1.24bn, which is in line with our expectation of SGD1.2bn. We are bullish on FY19's SADV, forecasting SGD1.39bn as global uncertainties drive trading activities. Factoring in some negatives from the trading of Nifty 50 Index Futures, we are forecasting FY19 DADV of 0.82m, which is similar to 4QFY18's DADV. SGX's FY19F dividend yield of 4.6% is attractive vs Singapore's sovereign 10-year bond yield of 2.42%.

SGX recorded FY18 securities average daily value (SADV) of SGD1.24bn, which is in line with our expectation of SGD1.2bn, and higher than FY17's SGD1.12bn. For 4QFY18, SGX recorded SADV of SGD1.26bn, which was 11% weaker QoQ (Figure 1). Though Jul 2018's MTD SADV of SGD1.11bn was weak, it could have been partly due to the FIFA World Cup that led to lower trading volumes, in our view.

Looking ahead, we are bullish on SADV, and have assumed FY19 SADV of SGD1.39bn. Global developments, including further hikes in the US Federal (Fed) funds rate (FFR) and trade war concerns, could stimulate more switching of stock holdings in investors' portfolios and in turn generate trading volume.

4QFY18's derivatives average daily volume (DADV) came close to our FY19 assumption. The 4QFY18 DADV of 0.82m was 11% lower QoQ but was 14% higher YoY. The sequentially weaker trend was largely attributed to QoQ weaker trading volumes for the China A50 Index Futures.

Our assumption for FY19 DADV of 0.82m remains unchanged – we have assumed some adverse impact from the trading of Nifty 50 Index Futures – which accounts for 11% of total derivatives traded volume.

Good earnings growth and strong balance sheet. We are forecasting FY19 net profit growth of 9.7%. SGX is in a net cash position and has a monopoly over the trading of Singapore equities.

Our TP of SGD9 is based on FY19 P/E of 24x or 1SD above the 3-year mean of 22.2x. Our DCF valuation provides a supporting fair value of SGD9.06, and our sensitivity analysis (Figure 5) shows that even if FY19 SADV were to fall by 20% to SGD1.11bn, SGX would still trade at around SGD7.84.

Attractive dividend yield. SGX's FY19F dividend yield of 4.6% is almost double that of Singapore's sovereign 10-year bond yield of 2.42%.

Key risks are global economic fluctuations and geopolitical developments. The outcome of the arbitration between SGX and IISL could also impact future derivatives trading volume and hence earnings.

Target Price:	SGD9.00
Price:	SGD7.48
Market Cap:	USD5,867m
Bloomberg Ticker:	SGX SP

#### Share Data

Avg Daily Turnover (SGD/USD)	14.2m/10.5m
52-wk Price low/high (SGD)	7.05 - 8.49
Free Float (%)	70
Shares outstanding (m)	1,070
Estimated Return	20%

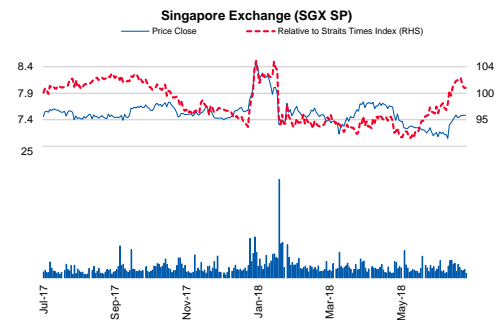
#### Shareholders (%)

SEL Holdings	23.4
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.5	4.3	(2.9)	(11.9)	(0.4)
Relative	3.7	4.1	5.1	(3.6)	0.2

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Jun-17	Jun-18F	Jun-19F	Jun-20F	Jun-21F
Total turnover (SGDm)	801	871	938	963	984
Reported net profit (SGDm)	340	373	409	423	434
Recurring net profit (SGDm)	340	373	409	423	434
Recurring net profit growth (%)	(2.7)	9.7	9.7	3.3	2.6
Recurring EPS (SGD)	0.32	0.35	0.38	0.40	0.41
DPS (SGD)	0.28	0.31	0.34	0.36	0.36
Recurring P/E (x)	23.6	21.5	19.6	18.9	18.4
P/B (x)	7.75	7.48	7.21	6.94	6.69
P/CF (x)	21.2	21.9	19.8	19.2	18.7
Dividend Yield (%)	3.7	4.2	4.6	4.8	4.9
EV/EBITDA (x)	16.6	15.3	14.1	13.7	13.5
Return on average equity (%)	33.6	35.5	37.5	37.3	36.9
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)		1.0	3.6	0.5	(5.7)

Source: Company data, RHB

#### Analyst

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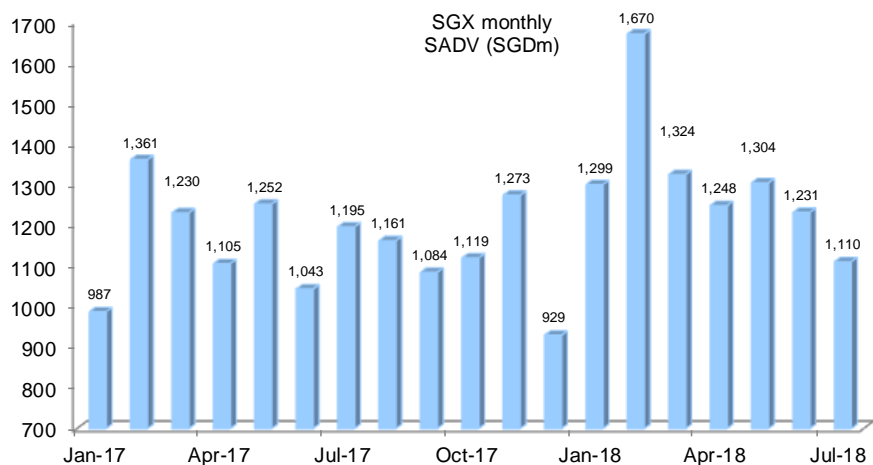
## Financial Exhibits

Financial model updated on : 2018-07-23.

Asia	<b>Financial summary</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>	<b>Jun-21F</b>
Singapore	Recurring EPS (SGD)	0.32	0.35	0.38	0.40	0.41
Financial Services	EPS (SGD)	0.32	0.35	0.38	0.40	0.41
<b>Singapore Exchange</b>	DPS (SGD)	0.28	0.31	0.34	0.36	0.36
Bloomberg SGX SP	BVPS (SGD)	0.96	1.00	1.04	1.08	1.12
<b>Buy</b>	Weighted avg adjusted shares (m)	1,070	1,070	1,070	1,070	1,070
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>	<b>Jun-21F</b>
Valuation is based on P/E, as share price is very dependent on near-term earnings outlook.	Recurring P/E (x)	23.6	21.5	19.6	18.9	18.4
	P/E (x)	23.6	21.5	19.6	18.9	18.4
	P/B (x)	7.75	7.48	7.21	6.94	6.69
	FCF Yield (%)	4.0	3.6	4.1	4.2	4.4
	Dividend Yield (%)	3.7	4.2	4.6	4.8	4.9
<b>Key drivers</b>	EV/EBITDA (x)	16.6	15.3	14.1	13.7	13.5
Earnings are dependent on SADV and DADV.	EV/EBIT (x)	19.1	17.5	16.0	15.5	15.2
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>	<b>Jun-21F</b>
Global economic trends	Total turnover	801	871	938	963	984
	Gross profit	801	871	938	963	984
	EBITDA	450	488	532	548	559
	Depreciation and amortisation	(58)	(62)	(63)	(64)	(63)
	Operating profit	392	426	469	484	496
	Net interest	10	10	11	11	12
	Pre-tax profit	409	449	493	509	523
	Taxation	(69)	(76)	(84)	(87)	(89)
	Recurring net profit	340	373	409	423	434
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>	<b>Jun-21F</b>
SGX operates the securities and derivatives exchange in Singapore and their related clearing houses.	Change in working capital	(15)	(65)	(65)	(65)	(65)
	Cash flow from operations	378	365	404	418	428
	Capex	(60)	(74)	(79)	(79)	(79)
	Cash flow from investing activities	(148)	(64)	(68)	(68)	(67)
	Proceeds from issue of shares	(9)	(5)	(6)	(5)	(4)
	Dividends paid	(300)	(300)	(336)	(368)	(380)
	Cash flow from financing activities	(308)	(305)	(342)	(373)	(384)
	Cash at beginning of period	598	520	517	510	487
	Net change in cash	(78)	(4)	(6)	(23)	(24)
	Ending balance cash	520	517	510	487	463
	<b>Balance sheet (SGDm)</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>	<b>Jun-21F</b>
	Total cash and equivalents	520	517	510	487	463
	Tangible fixed assets	240	252	268	283	299
	Intangible assets	64	63	63	64	64
	Total investments	10	13	15	16	16
	Total other assets	115	95	99	102	102
	Total assets	2,041	2,084	2,151	2,198	2,241
	Other liabilities	35	30	33	33	33
	Total liabilities	1,009	1,014	1,040	1,045	1,045
	Shareholders' equity	1,033	1,070	1,111	1,153	1,196
	Total equity	1,033	1,070	1,111	1,153	1,196
	Net debt	(520)	(517)	(510)	(487)	(463)
	Total liabilities & equity	2,041	2,084	2,151	2,198	2,241
	<b>Key metrics</b>	<b>Jun-17</b>	<b>Jun-18F</b>	<b>Jun-19F</b>	<b>Jun-20F</b>	<b>Jun-21F</b>
	Revenue growth (%)	(2.1)	8.7	7.7	2.7	2.1
	Recurrent EPS growth (%)	(2.7)	9.7	9.7	3.3	2.6
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	56.2	56.1	56.7	56.9	56.8
	Net profit margin (%)	42.4	42.8	43.6	43.9	44.1
	Capex/sales (%)	7.5	8.5	8.4	8.2	8.0

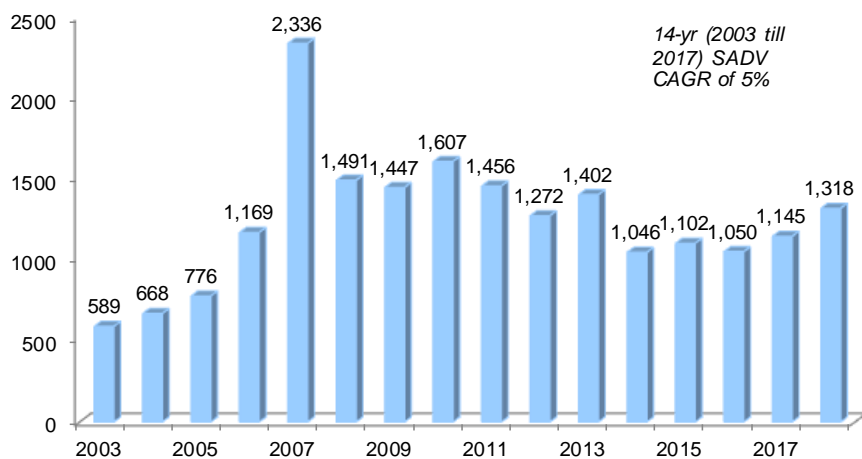
Source: Company data, RHB

Figure 1: SGX's monthly SADV (SGDm)



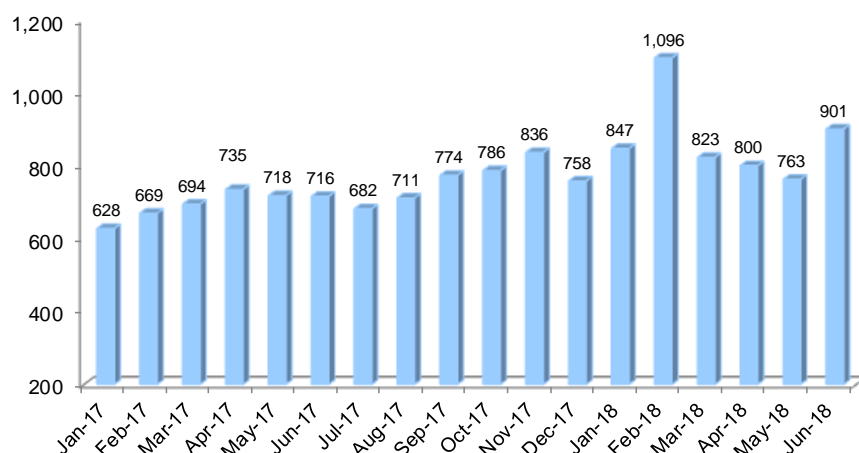
Note: Jul 2018 data is until 20Jul 2018  
Source: Bloomberg

Figure 2: SGX's calendar year SADV (SGDm)



Note: 2018 data is until 20Jul 2018  
Source: Bloomberg

Figure 3: Average daily derivatives trading volume ('000)



Source: SGX

Figure 4: SGX's annual P&amp;L with assumptions

YE : Jun (SGDm)	FY17	FY18F	FY19F	FY20F	FY21F
Turnover	800.8	870.5	937.7	963.0	983.7
EBITDA	459.5	498.2	542.4	559.2	570.9
Depreciation	(57.7)	(62.0)	(63.0)	(64.0)	(63.0)
EBIT	401.8	436.2	479.4	495.2	507.9
Pre-tax Profit	408.9	449.2	492.9	509.3	522.7
Tax	(69.2)	(76.4)	(83.8)	(86.6)	(88.9)
Net Profit	339.7	372.8	409.1	422.7	433.9
Growth (%)					
Turnover	(2.1)	8.7	7.7	2.7	2.1
EBITDA	(2.0)	8.4	8.9	3.1	2.1
Pre-tax Profit	(1.7)	9.9	9.7	3.3	2.6
Profitability (%)					
EBITDA Margin	57.4	57.2	57.8	58.1	58.0
Pre-tax Margin	51.1	51.6	52.6	52.9	53.1
Net Margin	42.4	42.8	43.6	43.9	44.1
Future & option turnover (units)(m)	165.2	191.0	207.0	214.0	214.0
Derivatives avg daily contract (k)	659	758	821	849	849
Stock-market turnover (SGD bn)	280.7	302.0	350.0	364.0	384.0
Securities average daily value (SGD bn)	1.12	1.20	1.39	1.44	1.52
Equities market velocity (%)	39%	39%	39%	39%	39%

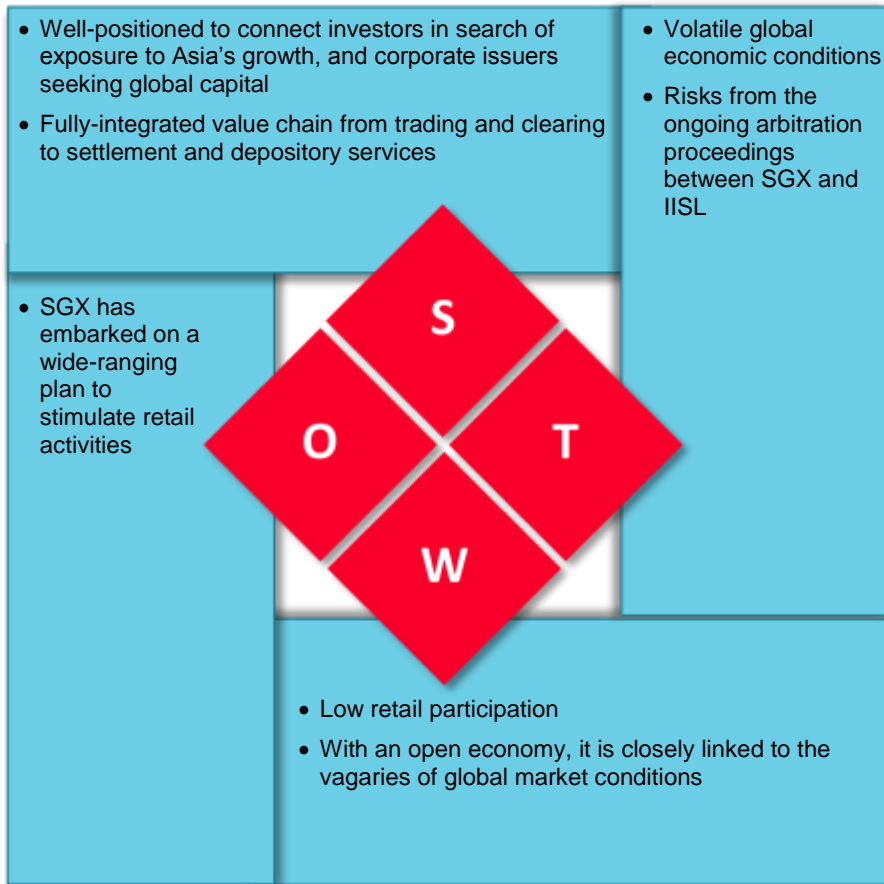
Source: Company data, RHB

Figure 5: SGX's earnings sensitivity to stock market turnover

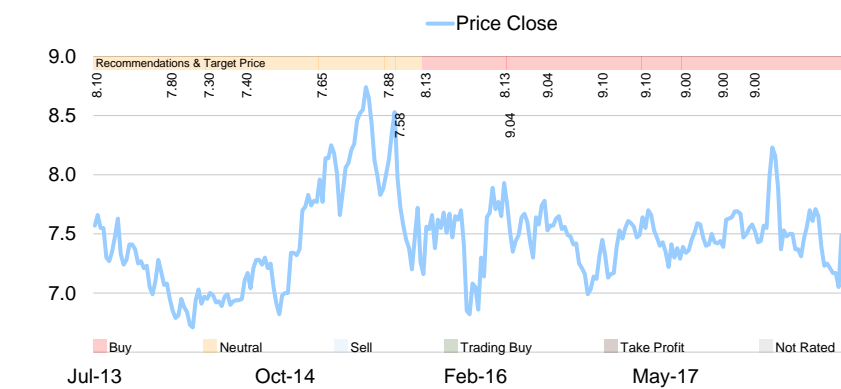
	FY19F					
	Base case	20	40	60	(20)	(40)
Stkmkt turnover % rise						
Securities ADV (SGDbn)	1.39	1.67	1.94	2.22	1.11	0.83
Revenue (SGDm)	937.7	1,004.3	1,070.9	1,137.4	871.1	804.5
Net profit (SGDm)	409.1	462.0	515.0	567.9	356.1	303.2
EPS (SGD)	38.2	43.2	48.1	53.1	33.3	28.3
Target PE rating	24	24	24	24	24	24
Target Price (SGD)	9.00	10.17	11.33	12.50	7.84	6.67

Source: RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-06-22	Buy	9.0	7.2
2018-04-22	Buy	9.0	7.6
2018-01-22	Buy	9.0	8.4
2017-12-04	Buy	9.0	7.5
2017-09-18	Buy	9.0	7.5
2017-06-20	Buy	9.0	7.4
2017-03-15	Buy	9.1	7.5
2017-01-13	Buy	9.1	7.4
2016-12-01	Buy	9.1	7.3
2016-07-21	Buy	9.0	7.8

Source: RHB, Bloomberg

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**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

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