

8 October 2019

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Derivatives Support Weak SADV

Target Price (Return) SGD8.10 (-4%)
Price: SGD8.43
Market Cap: USD6,548m
Avg Daily Turnover (SGD/USD) 16.2m/11.7m

- **Maintain NEUTRAL and SGD8.10 TP pegged to 23x FY20F (Jun) P/E, 4% downside.** We believe the strength in the China A50 Index futures trading could partly offset weakness from the soft securities average daily value (SADV). We expect a slight YoY decline for FY20F net profit.
- **Jul-Aug 2019 derivatives volume rose 19% YoY.** For Jul-Aug 2019, derivatives average daily contracts (DADC) traded was 968,000, close to our FY20F of 960,000. The China A50 Index futures traded accounted for 38% of volume traded in Jul-Aug 2019. We believe market volatility will keep derivatives volume firm. We have conservatively assumed flat FY20F DADC on expectations of slower China A50 Index futures trading, with the Hong Kong Exchange's expected launch of the MSCI China A Index futures.
- **1QFY20 SADV was down 1% YoY to SGD1.04bn.** Compared with 4QFY19, SADV was down 3% QoQ – the weakness should lead to slower revenue from the securities business. Our assumption of FY20F SADV of SGD1.08bn is close to the current SADV level.
- **Respectable dividend yield.** SGX declared FY19 DPS of 30 SG cents, representing a payout ratio of 82%. This is lower than FY18's 88%. We forecast FY20 DPS of 31 SG cents, based on an 85% payout ratio – this translates to a FY20F dividend yield of 3.6%, which is higher than the Singapore sovereign 10-year yield of 1.69%.
- **Strong balance sheet.** SGX remains in a net cash position, with a monopoly over trading of Singapore-listed equities.
- **Our TP of SGD8.10 is pegged to 23x FY20F EPS, ie its 4-year mean.** Hypothetically, if FY20F SADV was 20% lower than our base case at SGD0.86bn, SGX's fair value would be SGD7.24 (Figure 2). Given SGX's 18% YTD share price rise, we believe the positives (particularly for the derivatives business) are largely priced in – maintain our NEUTRAL recommendation.
- **Key risks** are global economic fluctuations and geopolitical developments.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	17.9	(0.2)	6.0	14.1	16.4
Relative	16.9	1.2	13.1	20.6	19.0
52-wk Price low/high (SGD)	6.72 - 8.61				



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	844.7	909.8	896.3	958.4	975.0
Recurring net profit (SGDm)	363.2	391.1	385.3	418.8	427.8
Recurring net profit gr (%)	6.9	7.7	(1.5)	8.7	2.1
Recurring P/E (x)	24.8	23.1	23.4	21.5	21.1
P/B (x)	8.2	8.3	7.9	7.4	7.1
P/CF (x)	21.1	21.6	23.7	21.9	21.5
Dividend Yield (%)	3.6	3.6	3.6	3.9	4.0
EV/EBITDA (x)	16.9	16.0	16.2	15.1	14.9
Return on average equity (%)	34.1	39.4	37.4	38.7	34.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage	na	na	na	na	na

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Singapore	Recurring EPS (SGD)	0.34	0.37	0.36	0.39	0.40
Financials	DPS (SGD)	0.30	0.30	0.31	0.33	0.34
SGX	BVPS (SGD)	1.02	1.02	1.07	1.13	1.19
SGX SP	ROE (%)	34.1	39.4	37.4	38.7	34.4
NEUTRAL						
Valuation basis	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
P/E methodology	Recurring P/E (x)	24.8	23.1	23.4	21.5	21.1
	P/B (x)	8.2	8.3	7.9	7.4	7.1
	FCF Yield (%)	3.9	4.1	3.3	3.7	3.8
Key drivers	Dividend yield (%)	3.6	3.6	3.6	3.9	4.0
i. Securities average daily value expectations;	EV/EBITDA (x)	16.9	16.0	16.2	15.1	14.9
ii. Derivatives average daily volume outlook.	EV/EBIT (x)	19.3	18.1	18.6	17.1	16.8
Key risks	Income statement (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Global economic growth fluctuations could affect trading volumes	Total turnover	845	910	896	958	975
	Gross profit	na	na	na	na	na
	EBITDA (adj.)	486	524	515	551	560
	Depreciation & amortisation	(61)	(63)	(66)	(63)	(62)
	Operating profit	425	461	449	488	498
	Net interest	11	13	14	15	16
	Pre-tax profit	437	473	464	505	515
	Taxation	(74)	(82)	(79)	(86)	(88)
	Net profit	363	391	385	419	428
	Recurring net profit	363	391	385	419	428
Company Profile	Cash flow (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
SGX operates the securities and derivatives exchange in Singapore and their related clearing houses.	Change in working capital	(7)	(38)	(65)	(65)	(65)
	Cash flow from operations	427	417	381	411	420
	Capex	(79)	(47)	(79)	(79)	(79)
	Cash flow from investing activities	(90)	(160)	(65)	(64)	(63)
	Dividends paid	(300)	(401)	(321)	(327)	(356)
	Cash flow from financing activities	(308)	(411)	(326)	(331)	(358)
	Cash at beginning of period	520	550	446	435	451
	Net change in cash	29	(104)	(10)	16	(2)
	Ending balance cash	550	446	435	451	450
	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	832	667	657	673	671
	Tangible fixed assets	246	243	256	272	289
	Total investments	22	0	0	0	0
	Total assets	2,115	2,132	2,119	2,206	2,278
	Short-term debt	0	0	0	0	0
	Total long-term debt	0	0	0	0	0
	Total liabilities	1,019	1,041	971	995	1,003
	Total equity	1,096	1,091	1,149	1,211	1,276
	Total liabilities & equity	2,115	2,132	2,119	2,206	2,278
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	5.5	7.7	(1.5)	6.9	1.7
	Recurrent EPS growth (%)	6.9	7.7	(1.5)	8.7	2.1
	Gross margin (%)	na	na	na	na	na
	Operating EBITDA margin (%)	57.5	57.5	57.4	57.5	57.5
	Net profit margin (%)	43.0	43.0	43.0	43.7	43.9
	Capex/sales (%)	9.3	5.2	8.8	8.2	8.1
	Interest cover (x)	na	na	na	na	na

Source: Company data, RHB

Figure 1: SGX's annual P&L, with assumptions

FYE Jun (SGDm)	FY18	FY19	FY20F	FY21F	FY22F
Turnover	844.7	909.8	896.3	958.4	975.0
EBITDA	485.7	523.5	514.6	551.2	560.3
Depreciation	(60.8)	(62.5)	(66.0)	(63.0)	(62.0)
EBIT	424.9	461.0	448.6	488.2	498.3
Pre-tax Profit	437.5	473.0	464.2	504.6	515.4
Tax	(74.3)	(81.9)	(78.9)	(85.8)	(87.6)
Net Profit	363.2	391.1	385.3	418.8	427.8
Growth (%)					
Turnover	5.5	7.7	(1.5)	6.9	1.7
EBITDA	5.7	7.8	(1.7)	7.1	1.6
Pre-tax Profit	7.0	8.1	(1.9)	8.7	2.1
Profitability (%)					
EBITDA Margin	57.5	57.5	57.4	57.5	57.5
Pre-tax Margin	51.8	52.0	51.8	52.6	52.9
Net Margin	43.0	43.0	43.0	43.7	43.9
Future & option turnover (units)(m)	198.0	240.3	240.0	264.0	268.0
Derivatives avg daily contract (k)	794	963	960	1,048	1,063
Stock-market turnover (SGD bn)	314.0	259.5	270.0	290.0	300.0
Securities average daily value (SGD bn)	1.26	1.04	1.08	1.15	1.19

Source: Company data, RHB

Figure 2: SGX's earnings sensitivity to stock market turnover

	FY20F					
Stock market turnover % rise	Base case	20	40	60	(20)	(40)
Securities ADV (SGDbn)	1.08	1.30	1.51	1.73	0.86	0.65
Revenue (SGDm)	896.3	949.5	1,002.8	1,056.1	843.0	789.7
Net profit (SGDm)	385.3	426.5	467.7	508.9	344.0	302.8
EPS (SGD)	36.0	39.9	43.7	47.6	32.1	28.3
Target PE rating	23	23	23	23	23	23
Target Price (SGD)	8.10	8.97	9.84	10.70	7.24	6.37

Source: RHB

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