30 June 2020

Financial Services | Exchanges

# Singapore Exchange (SGX SP)

**Buy** (Maintained)

## Acquiring BidFX To Serve Wider FX Community

| | |
|---|---|
| Target Price (Return): | SGD9.20 (+14%) |
| Price: | SGD8.06 |
| Market Cap: | USD6,192m |
| Avg Daily Turnover (SGD/USD) | 46.1m/32.8m |

- **Stay BUY, unchanged SGD9.20 TP, 14% upside with c.4% FY21F (Jun) yield.** Our TP is pegged to 24x FY21F EPS, at 1SD above the 4-year mean of 22.5x. Singapore Exchange has announced that it will acquire the remaining 80% in BidFX for USD128m, which will expand its reach into the global FX over-the-counter (OTC) market. We view the acquisition positively.
- **Synergies led to SGX's decision to purchase the BidFX stake.** SGX first acquired a 20% stake in BidFX in Mar 2019, to bring together FX futures with OTC markets. The synergies between SGX and BidFX – plus the opportunity to support international FX participants from pre-trade data and analytics, trade execution to post-trade clearing – propelled SGX to purchase the remaining stake. It expects to complete the acquisition in July.
- **57% CAGR for average daily volumes since Jan 2017.** BidFX is a leading cloud-based FX trading platform for institutional investors. Since BidFX's establishment in Jan 2017, average daily volumes have grown at a compounded annual growth rate (CAGR) of 57% to USD31bn in May 2020. BidFX continues to acquire new clients, with over 100 of the world's largest banks, hedge funds and asset managers currently connected to its platform.
- **SGX to serve a wider FX community with the acquisition.** SGX sees the future of FX being in market participants benefitting from price discovery, liquidity and transparency for both OTC and listed futures trading, in a single unified venue. BidFX is ahead of the curve in developing sophisticated electronic FX trading and workflow solutions. SGX can serve a wider FX community, with BidFX as part of the SGX Group.
- **SGX indicated that BidFX has revenue CAGR of >60%,** and has been EBITDA-positive from 2017 until 2019.
- **No material impact on SGX's FY21 financial results.** Note that SGX also indicated that the acquisition should be EPS-accretive from FY21, and we have fine-tuned our FY21 projections.
- **Respectable dividend yield.** We forecast a FY20 DPS of 36 SG cents – offering a 4.4% dividend yield – based on an 85% payout ratio. However, we have assumed FY21 dividend of a lower 33 cents per share, due to weaker earnings, as some MSCI contracts are discontinued.
- **Global economic fluctuations and geopolitical developments are key risks.** If the COVID-19 pandemic is prolonged, trading volumes could experience a gradual decline from current high levels.

**Analyst**

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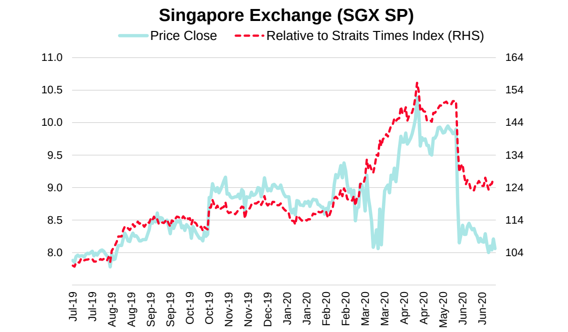
**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | (9.0) | (2.7) | (10.9) | (10.1) | 1.8 |
| Relative | 10.2 | (6.4) | (13.9) | 9.2 | 23.4 |
| 52-wk Price low/high (SGD) | | | | | 7.78 – 10.4 |




*Source: Bloomberg*

| Forecasts and Valuation | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover (SGDm) | 845 | 910 | 990 | 960 | 949 |
| Recurring net profit (SGDm) | 363 | 391 | 449 | 414 | 411 |
| Recurring net profit growth (%) | 6.9 | 7.7 | 14.8 | (7.8) | (0.8) |
| Recurring P/E (x) | 23.75 | 22.06 | 19.22 | 20.84 | 21.00 |
| P/B (x) | 7.9 | 7.9 | 7.4 | 7.1 | 6.7 |
| P/CF (x) | 20.21 | 20.66 | 18.13 | 19.65 | 19.85 |
| Dividend Yield (%) | 3.7 | 3.7 | 4.4 | 4.1 | 4.0 |
| EV/EBITDA (x) | 16.96 | 15.88 | 13.51 | 14.70 | 14.82 |
| Return on average equity (%) | 34.1 | 35.8 | 39.9 | 34.8 | 32.8 |

*Source: Company data, RHB*

# Financial Exhibits

**Asia**
Singapore
Financial Services
**Singapore Exchange**
SGX SP
Buy

**Valuation basis**

P/E, as is share price is very dependent on the near-term earnings outlook.

**Key drivers**

Earnings are dependent on SADV and derivatives average daily contract traded.

**Key risks**

Global economic and geopolitical developments, which could lead to prolonged periods of weak trading volumes (if the COVID-19 pandemic is prolonged).

**Company Profile**

Singapore Exchange operates the securities and derivatives exchange in Singapore, and their related clearing houses.

| Financial summary (SGD) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring EPS | 0.34 | 0.37 | 0.42 | 0.39 | 0.38 |
| DPS | 0.30 | 0.30 | 0.36 | 0.33 | 0.33 |
| BVPS | 1.02 | 1.02 | 1.08 | 1.14 | 1.20 |
| Return on average equity (%) | 34.1 | 35.8 | 39.9 | 34.8 | 32.8 |

| Valuation metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 23.75 | 22.06 | 19.22 | 20.84 | 21.00 |
| P/B (x) | 7.9 | 7.9 | 7.4 | 7.1 | 6.7 |
| FCF Yield (%) | 4.0 | 4.3 | 4.8 | 4.2 | 4.1 |
| Dividend Yield (%) | 3.7 | 3.7 | 4.4 | 4.1 | 4.0 |
| EV/EBITDA (x) | 16.96 | 15.88 | 13.51 | 14.70 | 14.82 |
| EV/EBIT (x) | 19.45 | 18.10 | 15.86 | 17.57 | 17.86 |

| Income statement (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total turnover | 845 | 910 | 990 | 960 | 949 |
| Gross profit | 845 | 910 | 990 | 960 | 949 |
| EBITDA | 474 | 510 | 612 | 563 | 557 |
| Depreciation and amortisation | (61) | (63) | (91) | (92) | (95) |
| Operating profit | 414 | 448 | 521 | 471 | 462 |
| Net interest | 11 | 13 | 14 | 15 | 16 |
| Pre-tax profit | 437 | 473 | 544 | 499 | 495 |
| Taxation | (74) | (82) | (96) | (85) | (84) |
| Reported net profit | 363 | 391 | 449 | 414 | 411 |
| Recurring net profit | 363 | 391 | 449 | 414 | 411 |

| Cash flow (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Change in working capital | (1) | (49) | (65) | (65) | (65) |
| Cash flow from operations | 427 | 417 | 476 | 439 | 435 |
| Capex | (79) | (47) | (59) | (79) | (79) |
| Cash flow from investing activities | (90) | (160) | (317) | (64) | (63) |
| Dividends paid | (300) | (401) | (321) | (381) | (352) |
| Cash flow from financing activities | (308) | (411) | (326) | (385) | (355) |
| Cash at beginning of period | 520 | 550 | 446 | 278 | 268 |
| Net change in cash | 29 | (154) | (167) | (11) | 16 |
| Ending balance cash | 550 | 446 | 278 | 268 | 284 |

| Balance sheet (SGDm) | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Total cash and equivalents | 572 | 446 | 278 | 268 | 284 |
| Tangible fixed assets | 246 | 243 | 211 | 198 | 182 |
| Total investments | 9 | 79 | 80 | 83 | 87 |
| Total assets | 2,115 | 2,132 | 1,917 | 1,948 | 2,006 |
| Total liabilities | 1,019 | 1,041 | 759 | 728 | 724 |
| Total equity | 1,096 | 1,091 | 1,158 | 1,220 | 1,282 |
| Total liabilities & equity | 2,115 | 2,132 | 1,917 | 1,948 | 2,006 |

| Key metrics | Jun-18 | Jun-19 | Jun-20F | Jun-21F | Jun-22F |
|---|---|---|---|---|---|
| Revenue growth (%) | 5.5 | 7.7 | 8.8 | (3.1) | (1.1) |
| Recurrent EPS growth (%) | 6.9 | 7.7 | 14.8 | (7.8) | (0.8) |
| Gross margin (%) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Operating EBITDA margin (%) | 56.2 | 56.1 | 61.8 | 58.7 | 58.7 |
| Net profit margin (%) | 43.0 | 43.0 | 45.3 | 43.1 | 43.3 |
| Capex/sales (%) | 9.3 | 5.2 | 6.0 | 8.2 | 8.3 |

*Source: Company data, RHB*

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

| YE : Jun (SGDm) | FY18 | FY19 | FY20F | FY21F | FY22F |
|---|---|---|---|---|---|
| Turnover | 844.7 | 909.8 | 990.1 | 959.6 | 949.0 |
| EBITDA | 485.7 | 523.5 | 626.3 | 577.7 | 572.6 |
| Depreciation | (60.8) | (62.5) | (91.0) | (92.0) | (95.0) |
| EBIT | 424.9 | 461.0 | 535.3 | 485.7 | 477.6 |
| Pre-tax Profit | 437.5 | 473.0 | 544.4 | 498.6 | 494.7 |
| Tax | (74.3) | (81.9) | (95.6) | (84.8) | (84.1) |
| Net Profit | 363.2 | 391.1 | 448.9 | 413.8 | 410.6 |
| Growth (%) | | | | | |
| Turnover | 5.5 | 7.7 | 8.8 | (3.1) | (1.1) |
| EBITDA | 5.7 | 7.8 | 19.6 | (7.8) | (0.9) |
| Pre-tax Profit | 7.0 | 8.1 | 15.1 | (8.4) | (0.8) |
| Profitability (%) | | | | | |
| EBITDA Margin | 57.5 | 57.5 | 63.3 | 60.2 | 60.3 |
| Pre-tax Margin | 51.8 | 52.0 | 55.0 | 52.0 | 52.1 |
| Net Margin | 43.0 | 43.0 | 45.3 | 43.1 | 43.3 |
| Future & option turnover (units)(m) | 198.0 | 240.3 | 260.0 | 238.0 | 242.0 |
| Derivatives avg daily contract (k) | 794 | 963 | 1,040 | 952 | 968 |
| Stock-market turnover (SGD bn) | 314.0 | 259.5 | 322.0 | 330.0 | 300.0 |
| Securities average daily value (SGD bn) | 1.26 | 1.04 | 1.29 | 1.32 | 1.20 |
| Equities market velocity (%) | 39% | 37% | 48% | 49% | 44% |

*Source: Company data, RHB*

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

| Stock market turnover (% rise) | FY21F Base case | 20 | 40 | 60 | (20) | (40) |
|---|---|---|---|---|---|---|
| Securities ADV (SGDbn) | 1.32 | 1.58 | 1.85 | 2.11 | 1.06 | 0.79 |
| Revenue (SGDm) | 959.6 | 1,024.6 | 1,089.6 | 1,154.6 | 894.6 | 829.6 |
| Net profit (SGDm) | 413.8 | 463.8 | 513.9 | 563.9 | 363.8 | 313.8 |
| EPS (SGD) | 38.7 | 43.3 | 48.0 | 52.7 | 34.0 | 29.3 |
| Target P/E | 24 | 24 | 24 | 24 | 24 | 24 |
| Target Price (SGD) | 9.20 | 10.31 | 11.43 | 12.54 | 8.09 | 6.98 |

*Source: RHB*

# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2020-06-24 | Buy | 9.20 | 8.10 |
| 2020-05-27 | Neutral | 8.60 | 8.75 |
| 2020-04-24 | Neutral | 9.70 | 9.64 |
| 2020-04-06 | Neutral | 9.10 | 9.33 |
| 2020-01-24 | Neutral | 8.80 | 8.81 |
| 2019-10-25 | Neutral | 8.30 | 8.85 |
| 2019-10-08 | Neutral | 8.10 | 8.40 |
| 2019-04-26 | Buy | 8.10 | 7.40 |
| 2019-01-25 | Buy | 8.20 | 7.57 |
| 2018-10-22 | Buy | 8.40 | 7.08 |

*Source: RHB, Bloomberg*

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| | |
|---|---|
| **Buy:** | Share price may exceed 10% over the next 12 months |
| **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 |
| **Not Rated:** | Stock is not within regular research coverage |

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