

30 July 2018

Financial Services | Exchanges

Singapore Exchange

Buy (Maintained)

Target Price: SGD9.00

Price: SGD7.57

Market Cap: USD5,952m

Bloomberg Ticker: SGX SP

Derivatives Main Driver To 4Q Revenue Growth

Maintain BUY, with SGD9.00 TP – pegged to 24x FY19F EPS (1SD above 3-year mean of 22.2x) and offering 19% upside. FY18 net profit rose 7% YoY, with SADV also up 12% YoY to SGD1.26bn. FY18 derivatives revenue surged 12% YoY, contributing 40% of total revenue. We forecast FY19 SADV of SGD1.39bn, on more trading volume from market volatility. We forecast FY19 DADC of 821,000, which is 3% higher YoY.

4QFY18 (Jun) results met. 4QFY18 net profit was SGD83.7m (-2% YoY), while FY18 net profit of SGD363m met. This came on 4QFY18 securities average daily value (SADV) of SGD1.29bn, +11% YoY.

Change in dividend policy. FY18 final dividend of SGD0.15/share was declared, giving FY18 total dividend of SGD0.30. Singapore Exchange would revise the dividend policy from percentage of net profit to absolute amount. It would pay a higher quarterly dividend of SGD0.075/share, starting 1QFY19. An annual SGD0.30/share dividend equates to SGD321m, and SGX indicated annual earnings for the past four years were higher than this. If performance is good, dividends can be higher.

Our SGD9.00 TP is based on 24x FY19F P/E (1SD above the 3-year mean of 22.2x). Our DCF valuation gives supporting fair value of SGD9.06. Our sensitivity analysis shows that even if FY19F SADV was lower by 20% at SGD1.11bn, SGX would trade at around SGD7.81. FY19F dividend yield is 4.4% – higher than the Singapore sovereign 10-year bond yield of 2.42%.

Key risks are global economic fluctuations and geo-political developments. The outcome of the arbitration between SGX and India Index Services and Products Ltd could also impact future derivatives trading volume and earnings.

Figure 1: SGX's results review

FYE : Jun (SGDm)	4QFY17	3QFY18	4QFY18	YoY%	Comments
Turnover	207.7	222.2	213.0	2.5	4QFY18 YoY revenue growth was mainly driven by the 4.1% rise for derivatives revenue
EBIT	99.4	117.9	98.1	(1.3)	
Net Profit	85.2	100.5	83.7	(1.8)	
Net Profit margin (%)	41.0	45.2	39.3		
SADV (SGD bn)	1.16	1.45	1.29	11.2	4QFY18 SADV was up 11% YoY, although down 11% QoQ
DADC (k units)	724	863	810	11.9	FY18 China A50 Index futures (38% share) recorded a respectable 17% growth

Source: Company data

Forecasts and Valuations	Jun-17	Jun-18	Jun-19F	Jun-20F	Jun-21F
Total turnover (SGDm)	801	845	893	939	959
Reported net profit (SGDm)	340	363	398	417	428
Recurring net profit (SGDm)	340	363	398	417	428
Recurring net profit growth (%)	(2.7)	6.9	9.5	4.9	2.5
Recurring EPS (SGD)	0.32	0.34	0.37	0.39	0.40
DPS (SGD)	0.28	0.30	0.33	0.35	0.36
Recurring P/E (x)	23.8	22.3	20.4	19.4	18.9
P/B (x)	7.85	7.54	7.27	7.01	6.76
P/CF (x)	21.4	22.9	20.7	19.6	19.1
Dividend Yield (%)	3.7	4.0	4.4	4.6	4.8
EV/EBITDA (x)	16.8	16.0	14.9	14.0	13.8
Return on average equity (%)	33.6	34.5	36.3	36.8	36.3
Net debt to equity	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)			0.7	(0.7)	(7.0)

Source: Company data, RHB

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