

2 January 2020

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Derivatives Slower In October-November

Target Price (Return)	SGD8.80 (-1%)
Price:	SGD8.90
Market Cap:	USD7,072m
Avg Daily Turnover (SGD/USD)	11.8m/8.7m

- **Maintain NEUTRAL with new SGD8.80 TP from SGD8.30 pegged to 23x FY21F (Jun) P/E, 1% downside** – we raise our TP as we roll over valuation one year forward. While 2QFY20 securities average daily value (SADV) was up a respectable 9% YoY, derivatives trading for Oct-Nov 2019 was down 15% YoY. SGX's earnings strength for 1QFY20 was mainly driven by derivatives trading for commodities and currencies – and derivatives may disappoint when results are released on 23 Jan 2020.
- **Oct-Nov 2019 derivatives volume dropped 15% YoY.** For Oct-Nov 2019, derivatives average daily contracts (DADC) traded was 857,000. 5MFY20 (Jun) DADC of 926,000 is closer to our FY20F of 960,000. The China A50 Index futures traded accounted for 36% of volume traded in Oct-Nov 2019. We believe market volatility will keep derivatives volume firm. We have conservatively assumed YoY flat FY20F DADC given recent slower China A50 Index futures trading, offset by stronger 1QFY20 commodities and currency derivatives.
- **2QFY20 SADV up c.9% YoY to SGD1.04bn.** Compared with 1QFY20, SADV was flat QoQ. Our assumption of FY20F SADV of SGD1.08bn is close to 1HFY20's SGD1.04bn.
- **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 3.5%, which is higher than the Singapore sovereign 10-year yield of 1.71%.
- **Strong balance sheet.** SGX remains in a net cash position, with a monopoly over trading of Singapore-listed equities.
- **Our TP of SGD8.80 is pegged to 23x FY21F EPS, ie its 4-year mean.** Hypothetically, if FY21F SADV was 20% lower than our base case at SGD0.92bn, SGX's fair value would be SGD7.87 (Figure 2). Given SGX's 25% share price rise through 2019, 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	24.6	0.7	5.2	12.5	25.1
Relative	19.4	(0.5)	1.7	15.3	19.4
52-wk Price low/high (SGD)	7.12 – 9.23				



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	844.7	909.8	913.1	958.4	975.0
Recurring net profit (SGDm)	363.2	391.1	394.3	418.8	427.8
Recurring net profit gr (%)	6.9	7.7	0.8	6.2	2.1
Recurring P/E (x)	26.2	24.4	24.2	22.8	22.3
P/B (x)	8.7	8.7	8.3	7.9	7.5
P/CF (x)	22.3	22.8	24.5	23.2	22.7
Dividend yield (%)	3.4	3.4	3.5	3.7	3.8
EV/EBITDA (x)	17.9	16.9	16.9	16.1	15.8
Return on average equity (%)	34.1	39.4	38.2	38.6	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	0.37	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	38.2	38.6	34.4
NEUTRAL						
Valuation basis	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
P/E	Recurring P/E (x)	26.2	24.4	24.2	22.8	22.3
	P/B (x)	8.7	8.7	8.3	7.9	7.5
	FCF yield (%)	3.7	3.9	3.3	3.5	3.6
	Dividend yield (%)	3.4	3.4	3.5	3.7	3.8
Key drivers	EV/EBITDA (x)	17.9	16.9	16.9	16.1	15.8
i. Securities average daily value expectations;	EV/EBIT (x)	20.5	19.2	19.3	18.1	17.8
ii. Derivatives average daily volume outlook.						
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	913	958	975
	Gross profit	na	na	na	na	na
	EBITDA (adj.)	486	524	526	551	560
	Depreciation & amortisation	(61)	(63)	(66)	(63)	(62)
	Operating profit	425	461	460	488	498
	Net interest	11	13	14	15	16
	Pre-tax profit	437	473	475	505	515
	Taxation	(74)	(82)	(81)	(86)	(88)
	Net profit	363	391	394	419	428
	Recurring net profit	363	391	394	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	390	411	420
	Capex	(79)	(47)	(79)	(79)	(79)
	Cash flow from investing activities	(90)	(160)	(65)	(64)	(63)
	Dividends paid	(300)	(401)	(321)	(335)	(356)
	Cash flow from financing activities	(308)	(411)	(326)	(339)	(358)
	Cash at beginning of period	520	550	446	444	452
	Net change in cash	29	(104)	(1)	8	(2)
	Ending balance cash	550	446	444	452	450
	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	832	667	665	673	672
	Tangible fixed assets	246	243	256	272	289
	Total investments	22	0	0	0	0
	Total assets	2,115	2,132	2,128	2,207	2,279
	Short-term debt	0	0	0	0	0
	Total long-term debt	0	0	0	0	0
	Total liabilities	1,019	1,041	978	994	1,002
	Total equity	1,096	1,091	1,150	1,213	1,277
	Total liabilities & equity	2,115	2,132	2,128	2,207	2,279
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	5.5	7.7	0.4	5.0	1.7
	Recurrent EPS growth (%)	6.9	7.7	0.8	6.1	2.1
	Gross margin (%)	na	na	na	na	na
	Operating EBITDA margin (%)	57.5	57.5	57.6	57.5	57.5
	Net profit margin (%)	43.0	43.0	43.2	43.7	43.9
	Capex/sales (%)	9.3	5.2	8.7	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	913.1	958.4	975.0
EBITDA	485.7	523.5	525.6	551.2	560.3
Depreciation	(60.8)	(62.5)	(66.0)	(63.0)	(62.0)
EBIT	424.9	461.0	459.6	488.2	498.3
Pre-tax Profit	437.5	473.0	475.1	504.6	515.4
Tax	(74.3)	(81.9)	(80.8)	(85.8)	(87.6)
Net Profit	363.2	391.1	394.3	418.8	427.8
Growth (%)					
Turnover	5.5	7.7	0.4	5.0	1.7
EBITDA	5.7	7.8	0.4	4.9	1.6
Pre-tax Profit	7.0	8.1	0.4	6.2	2.1
Profitability (%)					
EBITDA Margin	57.5	57.5	57.6	57.5	57.5
Pre-tax Margin	51.8	52.0	52.0	52.6	52.9
Net Margin	43.0	43.0	43.2	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
Equities market velocity (%)	39%	39%	39%	39%	39%

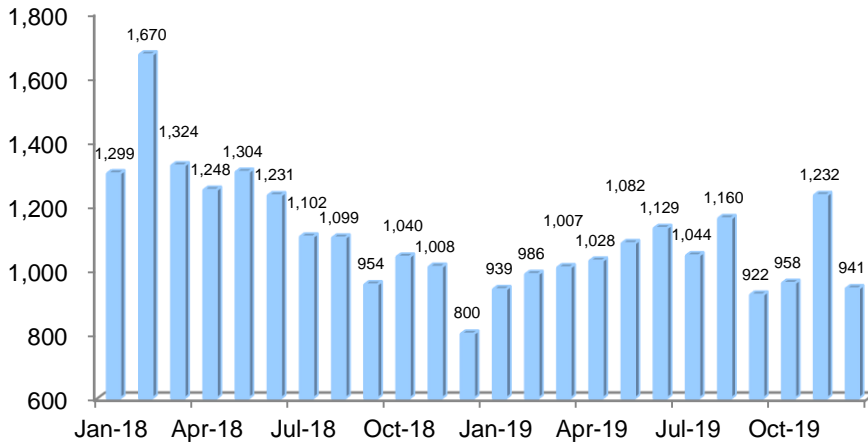
Source: Company data, RHB

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

	Base case	20	40	60	(20)	(40)
Stkmkt turnover % rise						
Securities ADV (SGDbn)	1.15	1.38	1.61	1.84	0.92	0.69
Revenue (SGDm)	958.4	1,016.3	1,074.1	1,132.0	900.6	842.7
Net profit (SGDm)	418.8	463.0	507.1	551.3	374.6	330.5
EPS (SGD)	39.1	43.2	47.4	51.5	35.0	30.9
Target PE rating	23	23	23	23	23	23
Target price (SGD)	8.80	9.73	10.65	11.58	7.87	6.94

Source: RHB

Figure 3: SGX's monthly SADV (SGDm)



Source: Bloomberg

Figure 4: China A50 Index monthly futures volume (m)



Source: Company data

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