

6 April 2020

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

March Trading Volume Surged, But Priced In

Target Price (Return):	SGD9.10 (+0%)
Price:	SGD9.09
Market Cap:	USD6,774m
Avg Daily Turnover (SGD/USD)	41.5m/29.6m

- **Maintain NEUTRAL with a new SGD9.10 TP from SGD8.80, 0% upside**, which is pegged to 23x FY21F (Jun) P/E. We raise our TP, as we increase our earnings forecasts following the recent securities average daily value (SADV) strength. Based on Bloomberg data, 3QFY20 SADV surged a robust 59% YoY to SGD1.55bn – we expect strong 3QFY20 earnings when results are released on 24 Apr.
- **For Jan-Feb 2020**, derivatives average daily contracts traded stood at 1.16m, 38% higher than 2QFY20's 0.84m. Trade in China A50 Index futures accounted for 39% of volumes traded during this period. We believe market volatility will keep derivatives volumes firm.
- **3QFY20 SADV surged 59% YoY to SGD1.55bn**. When compared with 2QFY20, SADV jumped 51% QoQ. The sharp spike was due to significantly higher trading volumes, as investors repositioned their portfolios following the disruptions from the COVID-19 pandemic. The equity market indices also showed extreme volatility during this period. We raise our FY20 SADV assumptions to SGD1.24bn from SGD1.08bn. However, we assume SADV will fall to SGD1.15bn in FY21.
- **We raise FY20F net profit by 11%**, with contributions from both derivatives and equities.
- **Respectable dividend yield**. Singapore Exchange declared a FY19 DPS of 30 cents, representing a payout ratio of 82%. This is lower than FY18's 88%. We forecast a FY20 DPS of 35 cents, based on an 85% payout ratio – this translates into a FY20F dividend yield of 3.8%.
- **Strong balance sheet**. SGX remains in a net cash position, with a monopoly over the trading of Singapore-listed equities.
- **Our new TP of SGD9.10 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 should be SGD8.16 (Figure 2). Given the counter's 8% share price rise over the past six months, we believe the positives – particularly for equities trading volume surges – are largely priced in. Hence, we maintain our stock recommendation.
- **Key risks** are global economic fluctuations and geopolitical developments. If the COVID-19 pandemic is prolonged, trading volumes could experience a gradual decline from current high levels. If COVID-19 is resolved soon, we could see another round of short-term trading volume surges.

Analyst

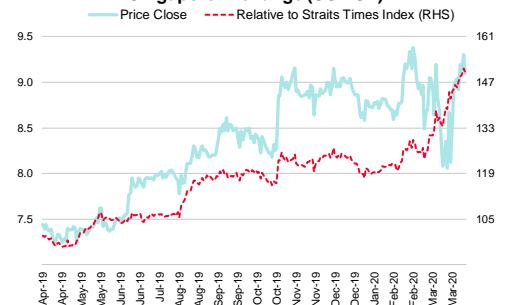
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.6	4.5	5.0	8.1	22.8
Relative	28.5	25.4	31.2	30.7	50.7
52-wk Price low/high (SGD)	7.24 – 9.38				

Singapore Exchange (SGX SP)



Source: Bloomberg

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	845	910	981	959	975
Recurring net profit (SGDm)	363	391	439	427	435
Recurring net profit growth (%)	6.9	7.7	12.2	(2.7)	2.0
Recurring P/E (x)	26.78	24.87	22.18	22.80	22.36
P/B (x)	8.9	8.9	8.4	8.0	7.6
P/CF (x)	22.79	23.30	22.45	23.09	22.62
Dividend Yield (%)	3.3	3.3	3.8	3.7	3.8
EV/EBITDA (x)	19.28	18.04	16.24	16.75	16.48
Return on average equity (%)	34.1	35.8	39.0	35.9	34.7

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Singapore	Recurring EPS	0.34	0.37	0.41	0.40	0.41
Financial Services	DPS	0.30	0.30	0.35	0.34	0.35
Singapore Exchange	BVPS	1.02	1.02	1.08	1.14	1.20
SGX SP	Return on average equity (%)	34.1	35.8	39.0	35.9	34.7
Neutral						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Valuation basis	Recurring P/E (x)	26.78	24.87	22.18	22.80	22.36
Valuation is via P/E, as share price is very dependent on the near-term earnings outlook.	P/B (x)	8.9	8.9	8.4	8.0	7.6
	FCF Yield (%)	3.6	3.8	3.6	3.5	3.6
	Dividend Yield (%)	3.3	3.3	3.8	3.7	3.8
	EV/EBITDA (x)	19.28	18.04	16.24	16.75	16.48
	EV/EBIT (x)	22.12	20.56	18.32	19.00	18.66
	Income statement (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Key drivers	Total turnover	845	910	981	959	975
Earnings is dependent on SDAV and derivatives average daily contracts traded.	Gross profit	845	910	981	959	975
	EBITDA	474	510	564	548	557
	Depreciation and amortisation	(61)	(63)	(64)	(65)	(65)
	Operating profit	414	448	500	483	492
	Net interest	11	13	14	15	16
	Pre-tax profit	437	473	529	514	525
	Taxation	(74)	(82)	(90)	(87)	(89)
	Reported net profit	363	391	439	427	435
	Recurring net profit	363	391	439	427	435
	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	433	422	430
	Capex	(79)	(47)	(79)	(79)	(79)
	Cash flow from investing activities	(90)	(160)	(65)	(64)	(63)
	Dividends paid	(300)	(401)	(321)	(373)	(363)
	Cash flow from financing activities	(308)	(411)	(326)	(377)	(365)
	Cash at beginning of period	520	550	446	488	468
	Net change in cash	29	(154)	42	(20)	2
	Ending balance cash	550	446	488	468	470
	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	572	446	488	468	470
	Tangible fixed assets	246	243	258	272	286
	Total investments	9	79	80	83	87
	Total assets	2,115	2,132	2,173	2,223	2,296
	Total liabilities	1,019	1,041	1,017	1,002	1,010
	Total equity	1,096	1,091	1,157	1,221	1,286
	Total liabilities & equity	2,115	2,132	2,173	2,223	2,296
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	5.5	7.7	7.8	(2.2)	1.6
	Recurrent EPS growth (%)	6.9	7.7	12.2	(2.7)	2.0
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	56.2	56.1	57.5	57.1	57.1
	Net profit margin (%)	43.0	43.0	44.7	44.5	44.7
	Capex/sales (%)	9.3	5.2	8.1	8.2	8.1

Source: Company data, RHB

6 April 2020

Financial Services | Exchanges

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

FYE : Jun (SGDm)	FY18	FY19	FY20F	FY21F	FY22F
Turnover	844.7	909.8	981.0	959.4	975.0
EBITDA	485.7	523.5	578.1	563.1	572.5
Depreciation	(60.8)	(62.5)	(64.0)	(65.0)	(65.0)
EBIT	424.9	461.0	514.1	498.1	507.5
Pre-tax profit	437.5	473.0	528.5	514.5	524.6
Tax	(74.3)	(81.9)	(89.9)	(87.5)	(89.2)
Net profit	363.2	391.1	438.7	427.0	435.4
Growth (%)					
Turnover	5.5	7.7	7.8	(2.2)	1.6
EBITDA	5.7	7.8	10.4	(2.6)	1.7
Pre-tax profit	7.0	8.1	11.7	(2.7)	2.0
Profitability (%)					
EBITDA margin	57.5	57.5	58.9	58.7	58.7
Pre-tax margin	51.8	52.0	53.9	53.6	53.8
Net margin	43.0	43.0	44.7	44.5	44.7
Future & option turnover (units)(m)	198.0	240.3	260.0	264.0	268.0
Derivatives avg daily contract (k)	794	963	1,040	1,048	1,063
Stock-market turnover (SGD bn)	314.0	259.5	310.0	290.0	300.0
Securities average daily value (SGD bn)	1.26	1.04	1.24	1.15	1.19
Equities market velocity (%)	39%	39%	39%	39%	39%

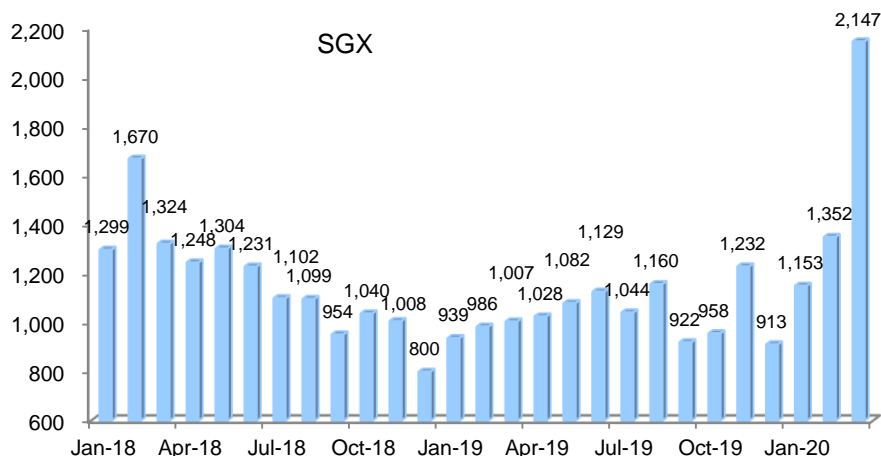
Source: Company data, RHB

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

	FY21F					
	Base case					
Stock market turnover % rise		20	40	60	(20)	(40)
Securities ADV (SGDbn)	1.15	1.38	1.61	1.84	0.92	0.69
Revenue (SGDm)	959.4	1,017.3	1,075.1	1,133.0	901.6	843.7
Net profit (SGDm)	427.0	471.2	515.3	559.5	382.9	338.7
EPS (SGD)	39.9	44.0	48.1	52.2	35.8	31.6
Target PE rating	23	23	23	23	23	23
Target Price (SGD)	9.10	10.04	10.98	11.92	8.16	7.21

Source: RHB

Figure 3: SADV surged in March to SGD2.15bn



Source: Bloomberg

Recommendation Chart



Date	Recommendation	Target Price	Price
2020-01-24	Neutral	8.80	8.81
2020-01-02	Neutral	8.80	8.86
2019-10-25	Neutral	8.30	8.85
2019-10-08	Neutral	8.10	8.40
2019-08-01	Neutral	8.10	7.78
2019-04-26	Buy	8.10	7.40
2019-04-05	Buy	8.10	7.44
2019-01-25	Buy	8.20	7.57
2018-11-26	Buy	8.20	7.24

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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