

18 March 2024

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Adjusting Estimates

- **Keep NEUTRAL, with new SGD10 TP from SGD9.60, 6% upside.** Singapore Exchange reported Feb 2024 operating data; while the securities trading data remained weak, the derivatives volume continued to meet estimates. We cut our securities daily average value (SDAV) estimates, switch to a half-yearly forecast model, and incorporate the likelihood of a lower increase in operating costs for 2HFY24 (Jun) and lower capex guidance. We raise FY24F earnings by 2% and FY25F-26F earnings by 3-5% as we remain optimistic about improvements in FY25F-26F SDAV.
- **Singapore remained the second most actively traded equities market in ASEAN in February.** SDAV in February came in at SGD1.25bn (+13% YoY, +34% MoM). Total securities turnover value was SGD25bn (+13% YoY, +22% MoM) despite fewer trading days compared to January. Singapore saw a jump in retail activity, with the number of retail accounts that traded in February up 34% MoM, and at a 12-month high. SGX also saw the listing of Singapore Institute of Advanced Medicine Holdings on the Catalist board. Despite the recent month's strength, YTD securities turnover value and SDAV are 8% and 10% below the same period last year. The implied FY24F SDAV, based on the YTD data, was 14% below our estimate. As such, we lower our FY24 SDAV estimate by c.12%.
- **YTD derivatives data is tracking estimates.** Derivatives traded volume rose 9% YoY in February to 21.9m contracts. Derivatives daily average volume (DDAV) climbed 9% YoY to 1.09m contracts. Both numbers were down 11% MoM and 2% MoM. SGX saw a strong increase in volume across equities, FX, and commodities. Adding to its derivatives portfolio, SGX plans to introduce short-term interest rate futures linked to the Singapore Overnight Rate Average (SORA) and Tokyo Overnight Average Rate (TONA) in the second half of 2024 as global investors increasingly seek more transparent and cost-effective tools to hedge and trade fluctuations in interest rates. YTD derivatives volume and DDAV are 5% and 4% above the same period last year. The implied FY24F DDAV, based on the YTD data, was a tad above our estimate. We increase our FY24 DDAV estimate by 0.6%.
- **Valuation and dividends are still unexciting.** SGX declared a higher YoY dividend for 1HFY24 and has announced plans to boost dividends by a mid-single-digit percentage in the medium term. We now estimate a gradual increase in DPS during the forecast years. Nevertheless, the estimated yield is still below the STI's forward yield of 5.7%. We continue to value SGX based on a 21x forward P/E, which is in line with its historical average. Our TP includes a 6% ESG premium to a fair value of SGD9.40. The stock is currently trading a tad below its historical average P/E, but we see limited upside.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (SGDm)	1,099	1,194	1,204	1,251	1,305
Recurring net profit (SGDm)	448	460	495	518	548
Recurring net profit growth (%)	2.0	2.7	7.8	4.6	5.7
Recurring P/E (x)	22.52	21.92	20.35	19.45	18.41
P/B (x)	6.5	5.9	5.7	5.3	4.9
P/CF (x)	17.28	22.56	17.25	17.71	17.16
Dividend Yield (%)	3.4	3.4	3.6	3.8	4.0
EV/EBITDA (x)	14.39	13.27	13.47	12.89	12.22
Return on average equity (%)	30.8	35.2	30.5	28.2	27.7
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return):	SGD10 (+6%)
Price (Market Cap):	SGD9.43 (USD7,496m)
ESG score:	3.4 (out of 4)
Avg Daily Turnover (SGD/USD)	15.5m/11.7m

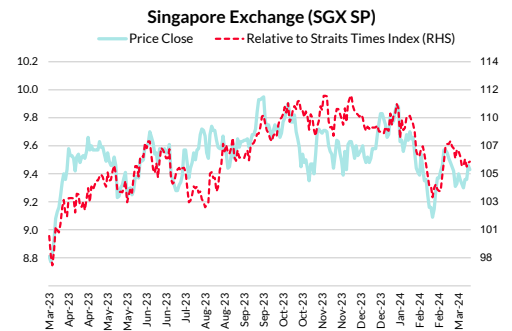
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.1)	1.6	(1.0)	(5.0)	8.6
Relative	(2.0)	1.7	(2.8)	(1.7)	8.6
52-wk Price low/high (SGD)				8.77	-9.95



Source: Bloomberg

Overall ESG Score: 3.4 (out of 4)

E: EXCELLENT

SGX is a component of Bloomberg ESG Data Index and MSCI World ESG Leader Index. One initiative in FY2020 was the purchase of Renewable Energy Certificates to offset its electricity consumption for the year. Employees are encouraged to adopt digital practices to conserve paper usage. Only 100% recyclable paper products are used and these products are sourced from certified suppliers who are committed to zero deforestation.

S: GOOD

SGX rolled out a SGD5m SGX Care Package in March 2020 to provide support and relief measures when the pandemic first broke out. Part of the funds are being used to support Singapore-listed companies, including a grant for qualifying issuers to help them facilitate virtual AGMs by harnessing technology and defraying their costs. A total of SGD1.5m was also donated to support national healthcare and community programmes.

G: EXCELLENT

SGX complies with the provisions of the Code of Corporate Governance 2018, as well as the Securities and Futures (Corporate Governance of Approved Exchanges, Approved Clearing Houses and Approved Holding Companies) Regulations 2005 (SFR 2005). It ranked 4th in Singapore Governance & Transparency Index 2019.

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Financial Exhibits

Asia	Financial summary (SGD)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Singapore	Recurring EPS	0.42	0.43	0.46	0.48	0.51
Financial Services	DPS	0.32	0.32	0.34	0.36	0.38
Singapore Exchange	BVPS	1.44	1.59	1.65	1.78	1.92
SGX SP	Return on average equity (%)	30.8	35.2	30.5	28.2	27.7
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	22.52	21.92	20.35	19.45	18.41
We use P/E valuation as share price is sensitive to near-term earnings volatility.	P/B (x)	6.5	5.9	5.7	5.3	4.9
	FCF Yield (%)	5.3	3.9	5.0	5.0	5.1
	Dividend Yield (%)	3.4	3.4	3.6	3.8	4.0
	EV/EBITDA (x)	14.39	13.27	13.47	12.89	12.22
	EV/EBIT (x)	16.98	15.48	15.77	14.96	13.91
Key drivers	Income statement (SGDm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Our FY24F earnings are most sensitive to changes in:	Total turnover	1,099	1,194	1,204	1,251	1,305
i. Total securities trading volume;	Gross profit	1,099	1,194	1,204	1,251	1,305
ii. Total derivatives trading volume; and	EBITDA	634	688	666	684	708
iii. Effective trading and clearing rate.	Depreciation and amortisation	(97)	(98)	(97)	(94)	(86)
	Operating profit	537	590	569	589	622
	Net interest	9	113	87	43	46
	Pre-tax profit	545	674	636	626	661
	Taxation	(93)	(103)	(107)	(108)	(114)
	Reported net profit	451	571	529	518	548
	Recurring net profit	448	460	495	518	548
Key risks	Cash flow (SGDm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Key downside risks to our call include:	Change in working capital	16	(162)	18	0	0
i. Lower-than-expected securities market turnover;	Cash flow from operations	584	447	585	569	588
ii. Lower-than-expected trading in derivative contracts; and	Capex	(44)	(54)	(79)	(70)	(70)
iii. Lower-than-expected clearing and trading rate.	Cash flow from investing activities	(550)	12	(119)	(20)	(18)
The converse represents upside risks.	Dividends paid	(342)	(344)	(364)	(380)	(401)
	Cash flow from financing activities	(109)	(433)	(382)	(386)	(408)
	Cash at beginning of period	1,060	998	1,033	1,065	1,228
	Net change in cash	(75)	26	84	163	162
	Ending balance cash	998	1,033	1,065	1,228	1,390
Company Profile	Balance sheet (SGDm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Singapore Exchange is a multi-asset exchange which operates equity, fixed income and derivatives markets that provides listing, trading, clearing, settlement, depository and data services	Total cash and equivalents	1,092	1,067	1,191	1,354	1,516
	Tangible fixed assets	251	193	225	201	185
	Total investments	609	580	596	596	596
	Total assets	3,848	3,781	3,760	3,939	4,130
	Short-term debt	42	352	350	350	350
	Total long-term debt	694	340	331	331	331
	Total liabilities	2,299	2,078	1,989	2,030	2,074
	Total equity	1,549	1,704	1,771	1,909	2,055
	Total liabilities & equity	3,848	3,781	3,760	3,939	4,130
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	4.1	8.7	0.8	3.9	4.3
	Recurrent EPS growth (%)	2.1	2.7	7.7	4.6	5.7
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	57.7	57.6	55.3	54.6	54.2
	Net profit margin (%)	41.1	47.8	43.9	41.4	42.0
	Dividend payout ratio (%)	75.8	60.8	68.8	73.2	73.2
	Capex/sales (%)	4.0	4.5	6.6	5.6	5.4
	Interest cover (x)	72.8	81.3	82.9	86.6	91.4

Source: Company data, RHB

Figure 1: FY24 (until February) SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
2QFY22	72,081	-8%	-14%	65	1,109	-9%	-14%
3QFY22	90,695	26%	-4%	62	1,463	32%	-4%
4QFY22	79,644	-12%	-5%	61	1,306	-11%	-4%
1QFY23	68,093	-15%	-13%	64	1,064	-19%	-13%
2QFY23	69,977	3%	-3%	63	1,111	4%	0%
3QFY23	72,096	3%	-21%	62	1,163	5%	-21%
4QFY23	65,290	-9%	-18%	61	1,070	-8%	-18%
1QFY24	62,426	-4%	-8%	63	991	-7%	-7%
2QFY24	58,738	-6%	-16%	63	932	-6%	-16%
3QFY24	45,601			42	1,086		
Period	Total turnover (SGDm)		YoY (%)	Trading days	SDAV (SGDm)		YoY (%)
YTD-FY19	170,926		-17%	167	1,024		-17%
YTD-FY20	189,098		11%	169	1,119		9%
YTD-FY21	217,245		15%	167	1,301		16%
YTD-FY22	205,399		-5%	168	1,223		-6%
YTD-FY23	182,188		-11%	166	1,098		-10%
YTD-FY24	166,765		-8%	168	993		-10%

Source: Company data, RHB

Figure 2: FY24 (until February) DDAV data

Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
2QFY22	55,687,092	-9%	4%	65	0.86	-10%	4%
3QFY22	64,888,445	17%	7%	62	1.05	22%	7%
4QFY22	66,616,829	3%	22%	61	1.09	4%	24%
1QFY23	63,186,909	-5%	4%	64	0.99	-10%	4%
2QFY23	65,507,128	4%	18%	63	1.04	5%	21%
3QFY23	62,727,026	-4%	-3%	62	1.01	-3%	-3%
4QFY23	59,541,157	-5%	-11%	61	0.98	-4%	-11%
1QFY24	65,625,547	10%	4%	63	1.04	7%	6%
2QFY24	64,109,564	-2%	-2%	63	1.02	-2%	-2%
3QFY23	46,414,988			42	1.11		
Period	Volume (contracts)		YoY (%)	Trading days	DDAV (m)		YoY (%)
YTD-FY19	151,010,697		15%	167	0.90		15%
YTD-FY20	157,273,804		4%	169	0.93		3%
YTD-FY21	154,805,495		-2%	168	0.92		-1%
YTD-FY22	155,291,374		0%	168	0.92		0%
YTD-FY23	167,949,291		8%	166	1.01		9%
YTD-FY24	176,150,099		5%	168	1.05		4%

Source: Company data, RHB

Figure 3: Monthly securities market turnover (until February)



Figure 4: Monthly SDAV (until February)



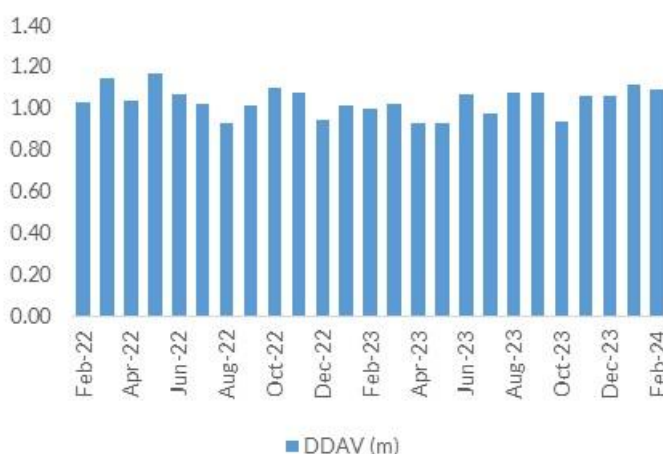
Source: Company data, RHB

Source: Company data, RHB

Figure 5: Monthly derivatives trading volumes (until February)



Figure 6: Monthly DDAV (until February)



Source: Company data, RHB

Source: Company data, RHB

Figure 7: FY24F earnings sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.03	1.05	1.08	1.05	1.13	1.15	1.18
775	436	446	455	447	474	484	493
850	452	461	471	463	490	499	509
925	468	477	487	479	506	515	525
1,004	484	494	503	495	522	532	541
1,075	499	509	518	510	537	547	556
1,150	515	525	534	526	553	562	572
1,225	531	540	550	542	569	578	588

Source: Bloomberg, RHB

Figure 8: TP sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.03	1.05	1.08	1.05	1.13	1.15	1.18
775	8.8	9.0	9.1	9.0	9.5	9.8	10.0
850	9.1	9.3	9.4	9.3	9.9	10.1	10.3
925	9.4	9.6	9.8	9.6	10.2	10.4	10.6
1,004	9.8	10.0	10.2	10.0	10.5	10.7	10.9
1,075	10.1	10.3	10.4	10.3	10.8	11.0	11.2
1,150	10.4	10.6	10.7	10.6	11.1	11.3	11.6
1,225	10.7	10.9	11.0	10.9	11.4	11.7	11.9

Source: Bloomberg, RHB

Emissions And ESG

Trend analysis

Between FY20 and FY23, SGX's Scope 1 and Scope 2 emissions have been on a gradual decline. Scope 1 emissions have declined to 30 tCO₂e from 45 tCO₂e. And during the same period, Scope 2 emissions have declined from 4,352 tCO₂e to 3,568 tCO₂e.

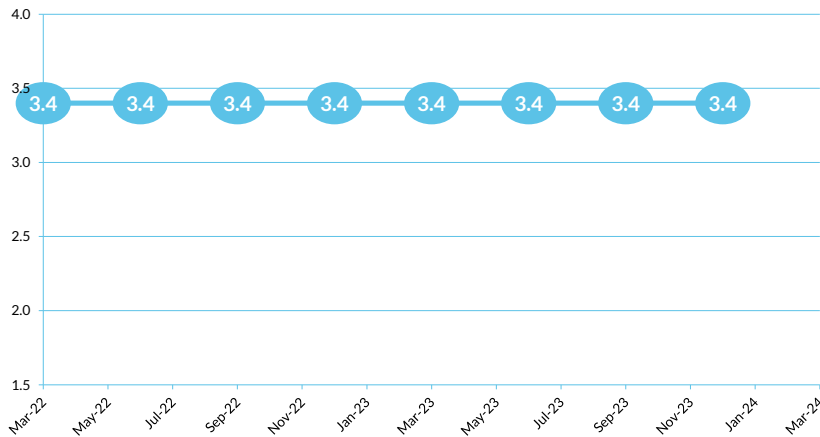
Emissions (tCO ₂ e)	Jun-21	Jun-22	Jun-23
Scope 1	65	35	30
Scope 2	3,763	3,469	3,568
Scope 3	3,937	4,966	7,061
Total emissions	7,765	8,470	10,659

Source: Company data, RHB

Latest ESG-Related Developments

- SGX's disclosure of climate-related risks and opportunities uses scenario analysis, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
- SGX's shelf of offerings and suite of ESG products have been continuously expanding. For example, in FY23, it worked with MSCI on developing the methodology for the MSCI Climate Action Indexes, which were launched in 2022. The MSCI Climate Action Indexes are designed to help institutional investors seeking to invest in the transition and finance companies' emissions reduction to drive change in the real economy, with inputs from over 30 asset owners.
- SGX plans to further embed sustainability into not only its business and company but the overall ecosystem, laying the foundations for being the exchange of choice for climate and sustainability-related products and solutions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-15	Neutral	9.6	9.9
2023-10-20	Neutral	10.3	9.6
2023-09-14	Neutral	10.3	9.8
2023-08-18	Neutral	10.3	9.6
2023-07-13	Neutral	9.9	9.6
2023-05-05	Neutral	9.8	9.5
2023-04-13	Neutral	9.0	9.5
2023-03-13	Neutral	8.6	8.6
2023-02-09	Neutral	9.4	9.2
2022-12-07	Neutral	9.3	9.1
2022-10-19	Neutral	9.0	8.5
2022-08-18	Neutral	10.3	10.0
2022-07-14	Neutral	10.7	9.7
2022-05-26	Neutral	10.4	9.8
2022-03-29	Neutral	10.0	9.8

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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