

10 September 2024

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Strong Securities Data; Upgrade Estimates

Target Price (Return): SGD11.70 (+8%)
 Price (Market Cap): SGD11.00 (USD9,049m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (SGD/USD) 20.1m/15.0m

- **Keep NEUTRAL, with new SGD11.70 TP from SGD10.80, 8% upside.** With more than 20% YoY growth, the August securities turnover data came in well ahead of our estimates. Total derivatives trading volume was largely in line with our estimates. We raise FY25F-26F (Jun) profit by 5% and 3.3% to account for higher securities daily average traded value (SDAV) estimates. We see downside risks to our treasury income estimates amidst potentially lower interest rates and expect the elevated SDAV to moderate in 2HFY25.
- **SDAV grew 28% YoY and 19% MoM.** August saw the second consecutive month of strong securities trading data, with SDAV of SGD1,370m being the highest since May 2022. The implied 1HFY25 SDAV was significantly above our estimate. We expect the volatility in the securities market to persist for a few months as investors await clarity on the interest rate outlook and the outcome of the US elections. Singapore Exchange noted that the growth in trading activity originated from both institutional and retail clients and across stock segments. Retail investors net purchased SGD685m of securities, which was the highest in 10 months. YTD returns from the Straits Times Index (STI) stood at 6.7%, even as the benchmark declined 0.4% MoM to 3,442.93 pts.
- **The derivatives business remains strong.** Total derivatives traded volume increased 4% YoY in August to 24.6m contracts, with DDAV of 1.17m contracts increasing by 9% YoY and 15% MoM. While the total trading volume is closely tracking our implied 1HFY25 estimate, we note that the FX and commodity derivative volumes are exceeding our estimate, and the equity derivative volume is tracking below our estimate. We have fine-tuned both numbers accordingly. In August, the Nikkei 225 and the GIFT Nifty derivatives traded volume saw an increase. In commodities, energy trading volumes saw a strong rise, and the rise in interest rate futures was driven by the recently launched three-month Tokyo Overnight Average Rate (TONA) futures. SGX noted that elevated volatility following the market dislocation in the earlier part of the month drove trading activity in equity derivatives and record FX futures volume.
- **What's next?** For FY25F-26F, we believe that SGX should see an increase in equity listings. However, the currently elevated SDAV should moderate in 2HFY25F once investors have clarity on the interest rate and global economic growth outlook. Over the longer term, we expect the derivatives business' revenue growth to significantly exceed the growth in securities business revenue. Despite management guidance of increasing dividends, SGX's forward yield of 3.3% remains unexciting. We continue to value SGX based on c.21x forward P/E, which is in line with its historical average. Our TP includes a 6% ESG premium to its fair value of SGD11.00.

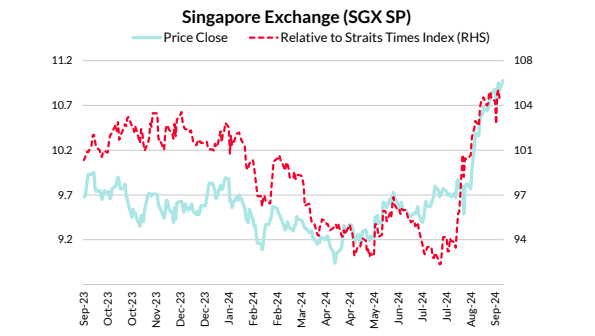
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.7	11.8	13.5	17.7	14.0
Relative	5.1	5.9	9.8	7.9	6.3
52-wk Price low/high (SGD)	8.94 – 11.0				



Source: Bloomberg

Overall ESG Score: 3.4 (out of 4)

E: EXCELLENT

SGX is the first Asian exchange committed to 1.5°C-aligned science-based emission reduction targets across scope 1-3 by SBTi, which was approved in Aug 2022. It is committed to a 42% reduction in Scope 2 emissions by FY2031 from the base year as of FY2021. For Scope 3 emissions, SGX plans to have ongoing engagement with its co-location data centre supplier to set science-based targets within five years.

S: GOOD

SGX Cares is SGX's CSR initiative, which supports charities and causes via its flagship fundraising events like Charity Futsal and Charity Run. Through three pillars of SGX Cares – Bull Charge (fundraising), Outreach (employee volunteerism), and Financial Literacy, SGX aims to uplift and empower communities, create positive change, and drive opportunities for a brighter and more sustainable future.

G: EXCELLENT

SGX complies with principles and provisions of the Code of Corporate Governance 2018, and Securities and Futures (Corporate Governance of Approved Exchanges, Approved Clearing Houses and Approved Holding Companies) Regulations 2005. It maintains healthy gender diversity at the board and management levels.

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (SGDm)	1,194	1,232	1,318	1,381	1,457
Recurring net profit (SGDm)	504	532	584	618	661
Recurring net profit growth (%)	13.1	5.5	9.7	5.9	6.8
Recurring P/E (x)	23.28	22.06	20.12	18.99	17.78
P/B (x)	6.9	6.0	5.4	4.9	4.5
P/CF (x)	26.27	19.06	16.22	17.94	16.92
Dividend Yield (%)	3.0	3.1	3.2	3.4	3.6
EV/EBITDA (x)	15.68	15.03	13.57	12.70	11.72
Return on average equity (%)	35.2	32.7	28.3	27.2	26.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Singapore	Recurring EPS	0.47	0.50	0.55	0.58	0.62
Financial Services	DPS	0.32	0.34	0.36	0.38	0.39
Singapore Exchange	BVPS	1.59	1.83	2.02	2.23	2.45
SGX SP	Return on average equity (%)	35.2	32.7	28.3	27.2	26.4
Neutral						
	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Valuation basis	Recurring P/E (x)	23.28	22.06	20.12	18.99	17.78
We use P/E valuation as share price is sensitive to near-term earnings volatility.	P/B (x)	6.9	6.0	5.4	4.9	4.5
	FCF Yield (%)	3.3	4.7	5.6	4.9	5.2
	Dividend Yield (%)	3.0	3.1	3.2	3.4	3.6
Key drivers	EV/EBITDA (x)	15.68	15.03	13.57	12.70	11.72
Our earnings forecast is most sensitive to changes in:	EV/EBIT (x)	18.29	17.41	15.21	14.10	12.94
i. Total securities trading volume;						
ii. Total derivatives trading volume;						
iii. Effective trading and clearing rate.						
	Income statement (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Key risks	Total turnover	1,194	1,232	1,318	1,381	1,457
Key downside risks to our call include:	Gross profit	1,194	1,232	1,318	1,381	1,457
i. Lower-than-expected securities market turnover;	EBITDA	688	702	755	789	834
ii. Lower-than-expected trading in derivative contracts;	Depreciation and amortisation	(98)	(96)	(82)	(78)	(78)
iii. Lower-than-expected clearing and trading rate.	Operating profit	590	606	673	710	755
The converse represents upside risks.	Net interest	113	137	38	43	49
	Pre-tax profit	674	709	705	746	797
	Taxation	(103)	(111)	(121)	(128)	(137)
	Reported net profit	571	598	584	618	661
	Recurring net profit	504	532	584	618	661
Company Profile	Cash flow (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
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	Change in working capital	(162)	1	102	4	4
	Cash flow from operations	447	616	724	655	694
	Capex	(54)	(65)	(70)	(75)	(80)
	Cash flow from investing activities	12	(138)	(20)	(23)	(25)
	Dividends paid	(344)	(365)	(380)	(401)	(417)
	Cash flow from financing activities	(433)	(460)	(391)	(411)	(424)
	Cash at beginning of period	998	1,033	998	1,316	1,540
	Net change in cash	26	18	313	222	246
	Ending balance cash	1,033	998	1,311	1,537	1,786
	Balance sheet (SGDm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	1,067	1,134	1,451	1,675	1,921
	Tangible fixed assets	193	190	178	175	177
	Total investments	580	695	695	695	695
	Total assets	3,781	3,985	4,314	4,529	4,839
	Short-term debt	352	0	0	0	0
	Total long-term debt	340	643	643	643	643
	Total liabilities	2,078	2,024	2,148	2,147	2,214
	Total equity	1,704	1,961	2,165	2,382	2,625
	Total liabilities & equity	3,781	3,985	4,314	4,529	4,839
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	8.7	3.1	7.0	4.8	5.5
	Recurrent EPS growth (%)	13.1	5.5	9.7	5.9	6.8
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	57.6	57.0	57.3	57.1	57.2
	Net profit margin (%)	47.8	48.5	44.3	44.8	45.4
	Dividend payout ratio (%)	60.8	61.7	65.0	64.9	63.1
	Capex/sales (%)	4.5	5.2	5.3	5.4	5.5
	Interest cover (x)	81.3	58.8	58.2	73.6	117.5

Source: Company data, RHB

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Financial Services | Exchanges

Figure 1: Aug 2024 SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
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	69,393	18%	-4%	62	1,119	20%	-4%
4QFY24	73,193	5%	12%	61	1,200	7%	12%
1QFY25	55,287			44	1,257		

Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)
YTD-FY20	48,063	0%	43	1,118	0%
YTD-FY21	53,611	12%	41	1,308	17%
YTD-FY22	51,331	-4%	42	1,222	-7%
YTD-FY23	42,337	-18%	42	1,008	-18%
YTD-FY24	45,087	6%	43	1,049	4%
YTD-FY25	55,287	23%	44	1,257	20%

Source: Company data, RHB

Figure 2: Aug 2024 DDAV data

Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
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%
3QFY24	70,369,393	10%	12%	62	1.13	12%	12%
4QFY24	70,452,880	0%	18%	61	1.15	2%	18%
1QFY25	48,098,614			44	1.09		

Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)
YTD-FY20	42,494,030	19%	43	0.99	19%
YTD-FY21	43,491,648	2%	42	1.04	5%
YTD-FY22	39,903,092	-8%	42	0.95	-8%
YTD-FY23	40,907,578	3%	42	0.97	3%
YTD-FY24	44,130,173	8%	43	1.03	5%
YTD-FY25	48,098,614	9%	44	1.09	7%

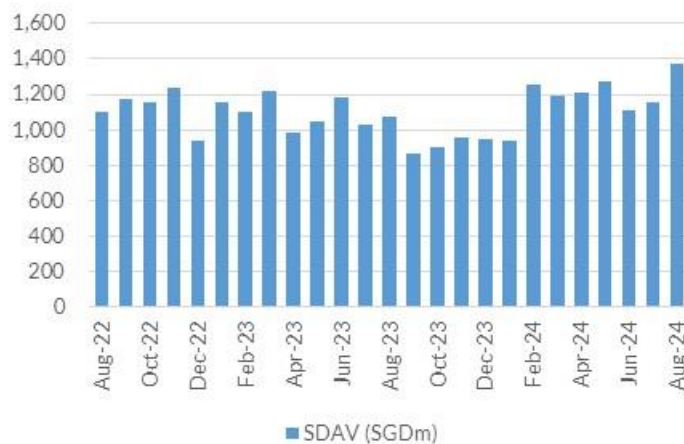
Source: Company data, RHB

Figure 3: Monthly securities market turnover (until Aug 2024)



Source: Company data, RHB

Figure 4: Monthly SDAV (until Aug 2024)

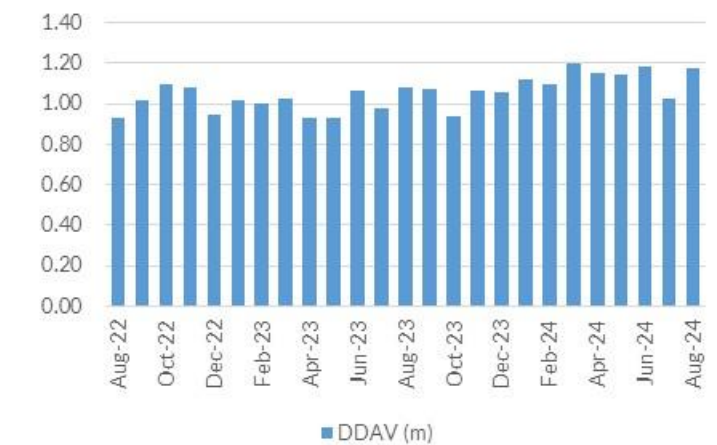


Source: Company data, RHB

Figure 5: Monthly derivatives trading volumes (until Aug 2024)



Figure 6: Monthly DDAV (until Aug 2024)



Source: Company data, RHB

Source: Company data, RHB

Figure 7: FY25F earnings sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.13	1.15	1.18	1.20	1.23	1.25	1.28
975	511	521	530	539	549	558	568
1,050	526	536	545	553	564	573	583
1,125	541	550	560	568	579	588	598
1,203	556	566	575	584	594	604	613
1,275	571	580	590	598	609	618	627
1,350	586	595	605	613	624	633	642
1,425	601	610	620	628	638	648	657

Source: Bloomberg, RHB

Figure 8: TP sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.13	1.15	1.18	1.20	1.23	1.25	1.28
975	10.2	10.4	10.6	10.8	11.0	11.1	11.3
1,050	10.5	10.7	10.9	11.0	11.2	11.4	11.7
1,125	10.8	11.0	11.2	11.3	11.6	11.8	12.0
1,203	11.1	11.3	11.6	11.7	11.9	12.1	12.3
1,275	11.4	11.7	11.8	12.0	12.2	12.4	12.5
1,350	11.8	11.9	12.1	12.3	12.5	12.6	12.8
1,425	12.0	12.2	12.4	12.6	12.8	12.9	13.1

Source: Bloomberg, RHB

Figure 9: 1-year forward P/E



Source: Company data, RHB

Figure 10: P/BV vs ROE



Source: Company data, 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.

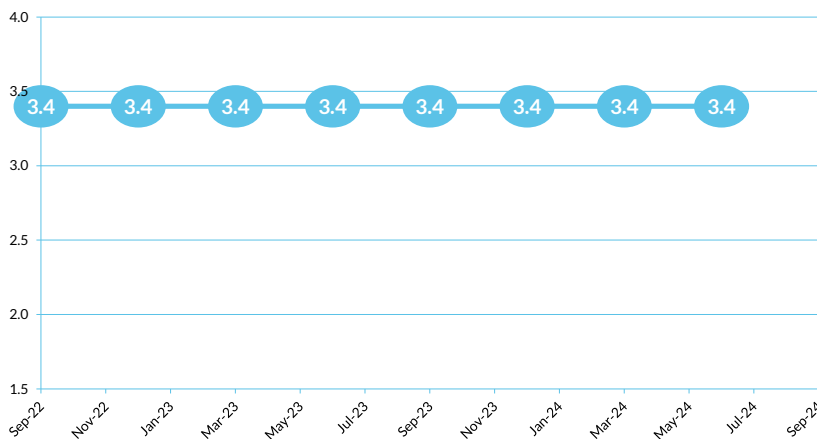
Emissions (tCO ₂ e)	Jun-22	Jun-23	Jun-24
Scope 1	35	30	na
Scope 2	3,469	3,568	na
Scope 3	4,966	7,061	na
Total emissions	8,470	10,659	na

Source: Company data, RHB

Latest ESG-Related Developments

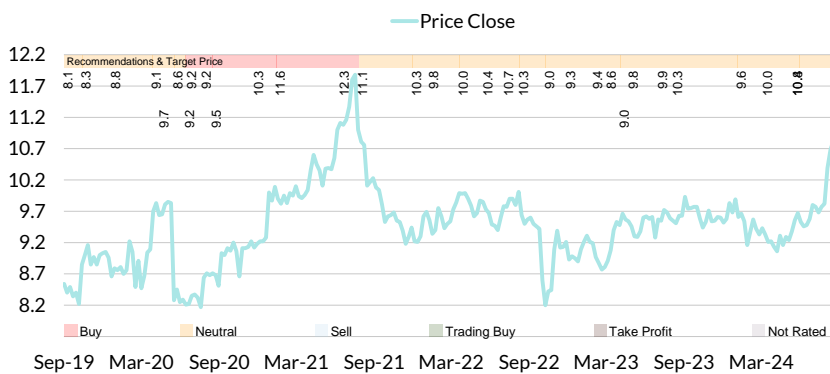
- SGX's disclosure of climate-related risks and opportunities uses scenario analysis, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
- SGX's shelf of offerings and suite of ESG products have been continuously expanding. For example, in FY2023, it worked 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
2024-08-12	Neutral	10.8	9.8
2024-07-09	Neutral	10.4	9.6
2024-06-11	Neutral	10.4	9.6
2024-05-19	Neutral	10.0	9.2
2024-03-18	Neutral	10.0	9.4
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

Source: RHB, Bloomberg

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Not Rated:	Stock is not within regular research coverage

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