

11 June 2024

Financial Services | Exchanges

## Singapore Exchange (SGX SP)

**Neutral** (Maintained)

### Strong Operating Data; Rolling Forward Valuations

- **Stay NEUTRAL, new SGD10.40 TP (from SGD10), 8% upside.** The strong operating data seen during Feb-Apr 2024 continued in May 2024. Securities daily average value (SDAV) averaged at c.SGD1.2bn since Feb 2024 vs c.SGD0.9bn during Jul 2023-Jan 2024. The derivatives business remains strong, with YTD FY24 (Jun) derivatives daily average volume (DDAV) up 8% YoY. We raise FY24F-26F earnings by 1.4% each and roll forward our valuation basis to FY25. While we expect improvements in FY25-26 SDAV and earnings, our FY24-26 profit estimate remains below consensus'.
- **SDAV data remains strong.** We had noted in our last report that SDAV could remain elevated in the near term, given the rebalancing of indices, which recently saw the announcement of the removal of five Singapore stocks from the MSCI Index. In addition, SGX noted that SDAV surged amid robust activity around corporate earnings. SGX reported a SGD1.27bn SDAV in May (+22% YoY, +5% MoM). The total market turnover value came in at SGD26.7bn (+16 YoY, +5% MoM). Both monthly data points were the highest for the entire FY24 (Jun). Although YTD SDAV for FY24 is down 4% YoY from the data for the same period last year, the recent strength means that the implied SDAV for 2HFY24 came in 3.6% ahead of our estimates. Accordingly, we have increased 2HFY24 SDAV by 3.4%. We estimate that the SDAV will increase by 5% each year in FY25-26.
- **Derivative business remains strong.** China's introduction of fiscal stimulus measures and India's general elections translated into record high open interest across SGX's key equity, FX, and commodity derivatives. Derivative volume rose 17% YoY in May 2024 to 23.9m contracts, while DDAV climbed 22% YoY to 1.14m contracts. Based on data for the Jan-May 2024 period, the implied DDAV for 2HFY24 is 1.3% ahead of our estimates. The positive surprises came from FX and commodity derivatives. We have increased 2HFY24 DDAV by 1.3%. We estimate that the DDAV will increase by 6% per year in FY25-26.
- **Unexciting yield and no major re-rating catalysts.** We continue to value SGX based on c.21x forward P/E, which is in line with its historical average. However, we have rolled forward our valuation basis from blended forward to FY25 estimates. Our TP includes a 6% ESG premium to its fair value of SGD9.80. We see limited upside in the near term amidst a lack of catalysts, as the potential increases in SDAV and DDAV seem to be already priced in. SGX's forward yield of 3.7% remains unexciting compared to the market yield of 5.5%, despite SGX's plans to boost dividends by a mid-single-digit percentage in the medium term.

Target Price (Return):	SGD10.40 (8.3%)
Price (Market Cap):	SGD9.60 (USD7,588m)
ESG score:	3.4 (out of 4)
Avg Daily Turnover (SGD/USD)	17.4m/12.9m

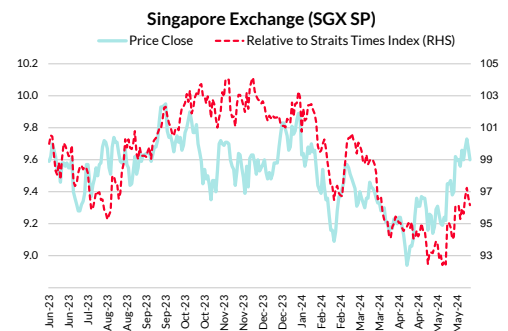
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.3)	3.3	2.9	0.0	0.0
Relative	(4.8)	2.3	(2.7)	(6.8)	(4.2)
52-wk Price low/high (SGD)	8.94 - 9.95				



Source: Bloomberg

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (SGDm)	1,099	1,194	1,225	1,269	1,324
Recurring net profit (SGDm)	448	460	512	531	562
Recurring net profit growth (%)	2.0	2.7	11.3	3.8	5.8
Recurring P/E (x)	22.92	22.32	20.05	19.32	18.26
P/B (x)	6.6	6.0	5.7	5.3	4.9
P/CF (x)	17.59	22.97	17.08	17.63	17.06
Dividend Yield (%)	3.3	3.4	3.5	3.7	3.9
EV/EBITDA (x)	14.68	13.53	13.32	12.82	12.12
Return on average equity (%)	30.8	35.2	31.3	28.5	27.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

#### 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.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Singapore	Recurring EPS	0.42	0.43	0.48	0.50	0.53
Financial Services	DPS	0.32	0.32	0.34	0.36	0.38
<b>Singapore Exchange</b>	BVPS	1.44	1.59	1.67	1.81	1.96
SGX SP	Return on average equity (%)	30.8	35.2	31.3	28.5	27.9
Neutral						
	<b>Valuation metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	22.92	22.32	20.05	19.32	18.26
We use P/E valuation as the share price is sensitive to near-term earnings volatility.	P/B (x)	6.6	6.0	5.7	5.3	4.9
	FCF Yield (%)	5.3	3.8	5.1	5.0	5.2
	Dividend Yield (%)	3.3	3.4	3.5	3.7	3.9
	EV/EBITDA (x)	14.68	13.53	13.32	12.82	12.12
	EV/EBIT (x)	17.32	15.79	15.52	14.82	13.74
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
Our FY24F earnings forecast is most sensitive to changes in:	Total turnover	1,099	1,194	1,225	1,269	1,324
i. Total securities trading volume;	Gross profit	1,099	1,194	1,225	1,269	1,324
ii. Total derivatives trading volume;	EBITDA	634	688	686	699	725
iii. Effective trading and clearing rate.	Depreciation and amortisation	(97)	(98)	(97)	(94)	(86)
	Operating profit	537	590	589	605	640
	Net interest	9	113	87	43	46
	Pre-tax profit	545	674	655	641	678
	Taxation	(93)	(103)	(111)	(110)	(116)
	Reported net profit	451	571	545	531	562
	Recurring net profit	448	460	512	531	562
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
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	601	582	602
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)
	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	1,081	1,257
	Net change in cash	(75)	26	100	176	177
	Ending balance cash	998	1,033	1,081	1,257	1,434
The converse represents upside risks.	<b>Balance sheet (SGDm)</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
	Total cash and equivalents	1,092	1,067	1,208	1,384	1,560
	Tangible fixed assets	251	193	225	201	185
	Total investments	609	580	596	596	596
	Total assets	3,848	3,781	3,810	4,006	4,214
	Short-term debt	42	352	350	350	350
	Total long-term debt	694	340	331	331	331
	Total liabilities	2,299	2,078	2,023	2,067	2,115
	Total equity	1,549	1,704	1,787	1,939	2,099
	Total liabilities & equity	3,848	3,781	3,810	4,006	4,214
<b>Company Profile</b>	<b>Key metrics</b>	<b>Jun-22</b>	<b>Jun-23</b>	<b>Jun-24F</b>	<b>Jun-25F</b>	<b>Jun-26F</b>
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	Revenue growth (%)	4.1	8.7	2.6	3.5	4.4
	Recurrent EPS growth (%)	2.1	2.7	11.3	3.8	5.8
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	57.7	57.6	56.0	55.1	54.8
	Net profit margin (%)	41.1	47.8	44.5	41.9	42.5
	Dividend payout ratio (%)	75.8	60.8	66.7	71.4	71.3
	Capex/sales (%)	4.0	4.5	6.5	5.5	5.3
	Interest cover (x)	72.8	81.3	85.8	88.9	94.0

Source: Company data, RHB

Figure 1: FY24 (until May 2024) SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
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	69,393	18%	-4%	62	1,119	20%	-4%
4QFY24	52,132			42	1,241		
Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)		
YTD-FY19	237,563	-18%	230	1,033	-18%		
YTD-FY20	294,124	24%	230	1,279	24%		
YTD-FY21	313,258	7%	230	1,362	7%		
YTD-FY22	295,158	-6%	230	1,283	-6%		
YTD-FY23	251,731	-15%	230	1,094	-15%		
YTD-FY24	242,689	-4%	230	1,055	-4%		

Source: Company data, RHB

Figure 2: FY24 (until May 2024) DDAV data

Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
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%
3QFY24	70,369,393	10%	12%	62	1.13	12%	12%
4QFY24	48,057,165			42	1.14		
Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)		
YTD-FY19	219,428,022	22%	230	0.95	22%		
YTD-FY20	223,957,153	2%	230	0.97	2%		
YTD-FY21	213,546,597	-5%	231	0.92	-5%		
YTD-FY22	224,690,836	5%	230	0.98	6%		
YTD-FY23	229,620,873	2%	230	1.00	2%		
YTD-FY24	248,161,669	8%	230	1.08	8%		

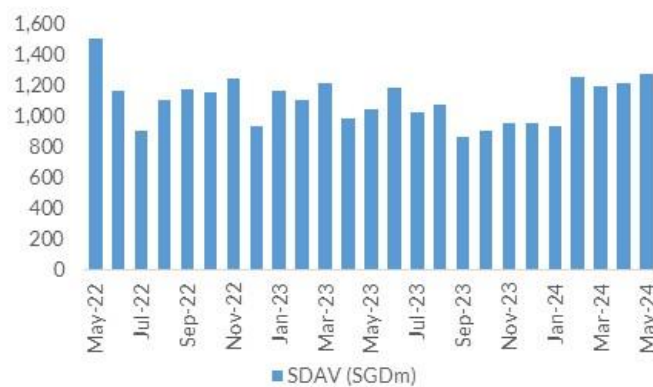
Source: Company data, RHB

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



Source: Company data, RHB

Figure 4: Monthly SDAV (until May 2024)

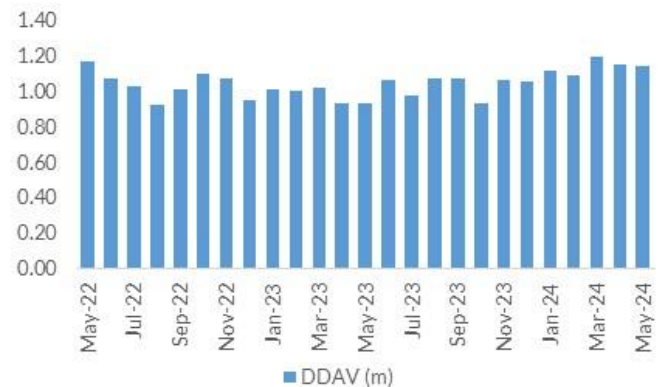


Source: Company data, RHB

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



Figure 6: Monthly DDAV (until May 2024)



Source: Company data, RHB

Source: Company data, RHB

Figure 7: FY25F earnings sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.03	1.05	1.08	1.14	1.13	1.15	1.18
885	441	451	460	485	479	488	497
960	457	466	475	500	494	503	513
1,035	472	481	491	516	509	519	528
<b>1,112</b>	<b>488</b>	<b>497</b>	<b>507</b>	<b>531</b>	<b>525</b>	<b>535</b>	<b>544</b>
1,185	503	512	522	547	540	550	559
1,260	518	528	537	562	556	565	574
1,335	534	543	552	577	571	580	590

Source: Bloomberg, RHB

Figure 8: TP sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.03	1.05	1.08	1.14	1.13	1.15	1.18
885	8.7	8.8	9.0	9.5	9.4	9.5	9.8
960	9.0	9.1	9.3	9.9	9.8	9.9	10.1
1,035	9.2	9.4	9.6	10.2	10.0	10.2	10.4
<b>1,112</b>	<b>9.5</b>	<b>9.8</b>	<b>10.0</b>	<b>10.4</b>	<b>10.3</b>	<b>10.5</b>	<b>10.7</b>
1,185	9.9	10.1	10.3	10.7	10.6	10.8	11.0
1,260	10.2	10.4	10.5	11.0	10.9	11.1	11.2
1,335	10.5	10.7	10.8	11.3	11.2	11.4	11.6

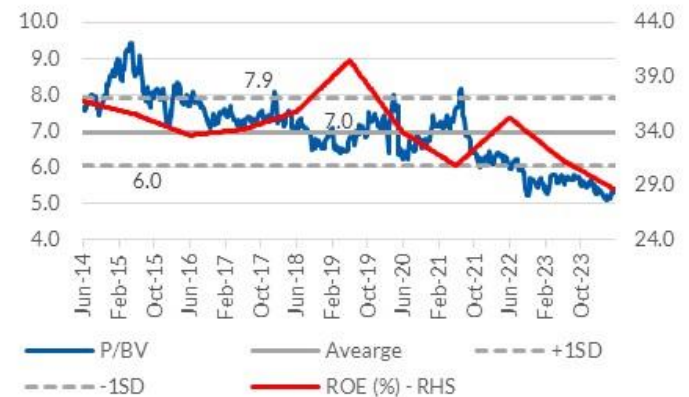
Source: Bloomberg, RHB

Figure 9: 1-year forward P/E



Source: Company data, RHB

Figure 10: P/BV vs the 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 tCO<sub>2</sub>e from 45 tCO<sub>2</sub>e. And during the same period, Scope 2 emissions have declined from 4,352 tCO<sub>2</sub>e to 3,568 tCO<sub>2</sub>e.

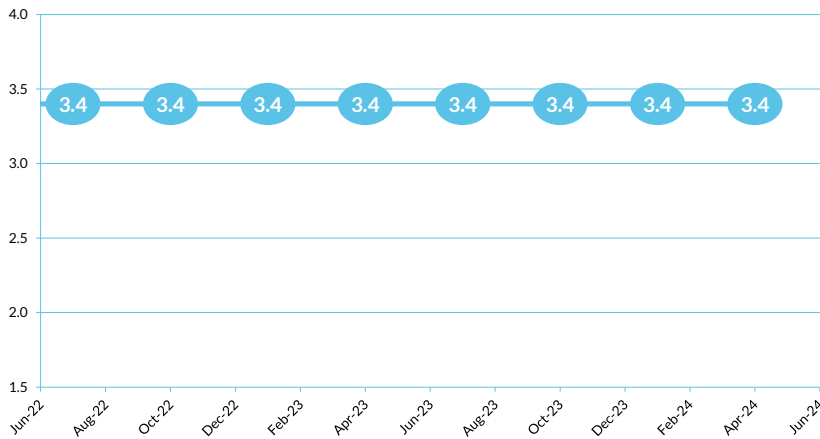
Emissions (tCO <sub>2</sub> e)	Jun-21	Jun-22	Jun-23
Scope 1	65	35	30
Scope 2	3,763	3,469	3,568
Scope 3	3,937	4,966	7,061
Total emissions	7,765	8,470	10,659

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 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
2024-05-19	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
2022-10-19	Neutral	9.0	8.5
2022-08-18	Neutral	10.3	10.0
2022-07-14	Neutral	10.7	9.7

Source: RHB, Bloomberg



## RHB Guide to Investment Ratings

<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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