

15 February 2024

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Derivatives Volume Continues To Improve

- **Keep NEUTRAL and SGD9.60 TP 5% upside.** YTD-FY24F (Jun) operating data until Jan 2024 remains a mixed bag, with derivatives volume meeting estimates and securities trading data continuing to disappoint. Despite the weak securities trading data, we believe securities daily average value (SDAV) and cash equities revenue will see some improvement in 2HFY24F, amid recovering economic growth outlook and likely clarity on moderation in the interest rate outlook during 2HCY24, leading to increased interest in Singapore equities, especially REITs.
- **Singapore was the second most actively traded equities market in ASEAN in Jan 2024.** While the securities market turnover value increased 8% MoM to SGD20.6bn, which is a five-month high, the SDAV fell 19% YoY and 2% MoM to SGD935m. Singapore equities saw net buying by retail investors across index stocks, REITs, and small- and mid-cap stocks. The STI declined 2.7% MoM in Jan 2024. The market turnover value of ETFs gained 5% MoM to SGD291m. The Lion-Nomura Japan Active ETF, Singapore's first active ETF, was listed with an AUM of SGD37m in Jan. Turnover of structured warrants and daily leverage certificates (DLC) climbed 57% MoM to SGD721m. SGX also saw the listing of Prosper Cap Corp on its Catalyst board in Jan 2024. The implied FY24F SDAV, based on the YTD data, is still well below our estimate. We do not rule out the possibility of further downgrades to our FY24F.
- **YTD derivatives data is tracking estimates.** Derivatives traded volume rose 27% YoY in Jan 2024 to 24.6m contracts, the highest since Mar 2022, with strong increases across equities, FX, and commodities. Derivatives daily average volume (DDAV) climbed 6% MoM to 1.1m contracts, the highest since May 2022. The total equity index futures volume rose 11% YoY to 14.6m, a 10-month high. The total FX futures volume rose 57% YoY to 4.3m contracts, which was also a record high. Commodity derivatives traded volume climbed 82% YoY to 5.2m. The implied FY24F DDAV, based on YTD data for FY24, is in line with our estimate.
- **Unexciting yield; valuation remains fair.** Despite SGX's declaring YoY higher dividends for 1HFY24 and also announcing plans to boost dividends by a mid-single-digit percentage in the medium term, its yield is below the STI's forward yield of 5.8%. 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 SGX's fair value of SGD9.10. The stock is currently trading in line with its historical average P/E, which we deem to be fair.

Target Price (Return): SGD9.60 (+5%)
 Price (Market Cap): SGD9.15 (USD7,254m)
 ESG score: 3.4 (out of 4)
 Avg Daily Turnover (SGD/USD) 15.1m/11.3m

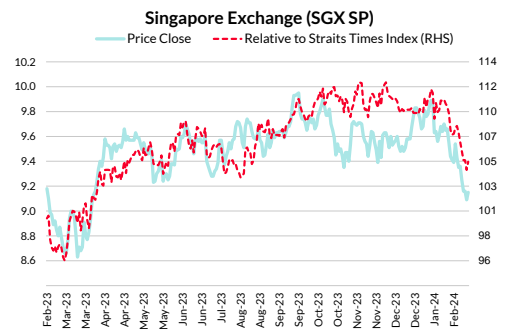
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(6.9)	(7.5)	(5.7)	(4.5)	(0.3)
Relative	(3.8)	(5.8)	(6.8)	(1.1)	5.1
52-wk Price low/high (SGD)	8.63 – 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 fourth in Singapore Governance & Transparency Index 2019.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (SGDm)	1,099	1,194	1,175	1,215	1,258
Recurring net profit (SGDm)	448	460	478	502	520
Recurring net profit growth (%)	2.0	2.7	4.0	5.0	3.6
Recurring P/E (x)	21.85	21.27	20.45	19.48	18.81
P/B (x)	6.3	5.7	5.4	5.0	4.6
P/CF (x)	16.77	21.89	17.26	18.03	17.61
Dividend Yield (%)	3.5	3.6	3.7	3.7	3.7
EV/EBITDA (x)	13.92	12.83	13.60	13.05	12.48
Return on average equity (%)	30.8	35.2	27.1	26.5	25.5
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-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Singapore	Recurring EPS	0.42	0.43	0.45	0.47	0.49
Financial Services	DPS	0.32	0.32	0.34	0.34	0.34
Singapore Exchange	BVPS	1.44	1.59	1.70	1.83	1.98
SGX SP	Return on average equity (%)	30.8	35.2	27.1	26.5	25.5
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Valuation basis	Recurring P/E (x)	21.85	21.27	20.45	19.48	18.81
We use P/E valuation as share price is sensitive to near-term earnings volatility.	P/B (x)	6.3	5.7	5.4	5.0	4.6
	FCF Yield (%)	5.5	4.0	5.1	4.8	5.0
	Dividend Yield (%)	3.5	3.6	3.7	3.7	3.7
	EV/EBITDA (x)	13.92	12.83	13.60	13.05	12.48
	EV/EBIT (x)	16.42	14.97	15.63	14.83	14.07
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	1,175	1,215	1,258
i. Total securities trading volume;	Gross profit	1,099	1,194	1,175	1,215	1,258
ii. Total derivatives trading volume; and	EBITDA	634	688	636	651	668
iii. Effective trading and clearing rate.	Depreciation and amortisation	(97)	(98)	(83)	(78)	(75)
	Operating profit	537	590	553	573	592
Key risks	Net interest	9	113	38	40	43
Key downside risks to our call include:	Pre-tax profit	545	674	579	606	628
i. Lower-than-expected securities market turnover;	Taxation	(93)	(103)	(100)	(104)	(108)
ii. Lower-than-expected trading in derivative contracts; and	Reported net profit	451	571	478	502	520
iii. Lower-than-expected clearing and trading rate.	Recurring net profit	448	460	478	502	520
The converse represents upside risks.						
Company Profile	Cash flow (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	Change in working capital	16	(162)	38	2	2
	Cash flow from operations	584	447	566	542	555
	Capex	(44)	(54)	(70)	(70)	(70)
	Cash flow from investing activities	(550)	12	(25)	(23)	(20)
	Dividends paid	(342)	(344)	(358)	(363)	(363)
	Cash flow from financing activities	(109)	(433)	(365)	(370)	(370)
	Cash at beginning of period	1,060	998	1,033	1,209	1,359
	Net change in cash	(75)	26	176	149	164
	Ending balance cash	998	1,033	1,209	1,359	1,523
	Balance sheet (SGDm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	1,092	1,067	1,243	1,392	1,557
	Tangible fixed assets	251	193	180	172	167
	Total investments	609	580	580	580	580
	Total assets	3,848	3,781	3,720	3,890	4,081
	Short-term debt	42	352	352	352	352
	Total long-term debt	694	340	340	340	340
	Total liabilities	2,299	2,078	1,895	1,927	1,961
	Total equity	1,549	1,704	1,824	1,963	2,120
	Total liabilities & equity	3,848	3,781	3,720	3,890	4,081
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	4.1	8.7	(1.6)	3.4	3.5
	Recurrent EPS growth (%)	2.1	2.7	4.0	5.0	3.6
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	57.7	57.6	54.1	53.6	53.1
	Net profit margin (%)	41.1	47.8	40.7	41.3	41.3
	Dividend payout ratio (%)	75.8	60.8	74.9	72.4	69.9
	Capex/sales (%)	4.0	4.5	6.0	5.8	5.6
	Interest cover (x)	72.8	81.3	76.1	82.8	85.6

Source: Company data, RHB

15 February 2024

Financial Services | Exchanges

Figure 1: FY24 (until Jan 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	20,564			22	935		

Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)
YTD-FY19	151,851	-13%	149	1,019	-13%
YTD-FY20	161,567	6%	149	1,084	6%
YTD-FY21	191,463	19%	148	1,294	19%
YTD-FY22	175,833	-8%	150	1,172	-9%
YTD-FY23	160,090	-9%	146	1,097	-6%
YTD-FY24	141,728	-11%	148	958	-13%

Source: Company data, RHB

Figure 2: FY24 (until Jan 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%
3QFY23	24,553,201			22	1.12		

Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)
YTD-FY19	132,809,187	18%	149	0.89	17%
YTD-FY20	133,282,405	0%	149	0.89	0%
YTD-FY21	137,114,005	3%	149	0.92	3%
YTD-FY22	136,687,331	0%	150	0.91	-1%
YTD-FY23	147,957,437	8%	146	1.01	11%
YTD-FY24	154,288,312	4%	148	1.04	3%

Source: Company data, RHB

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



Source: Company data, RHB

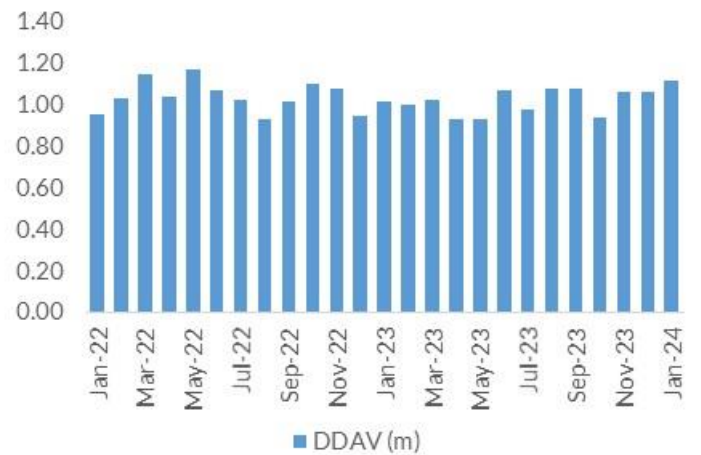
Figure 4: Monthly SDAV (until Jan 2024)



Source: Company data, RHB

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

Figure 6: Monthly DDAV (until Jan 2024)



Source: Company data, RHB

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.

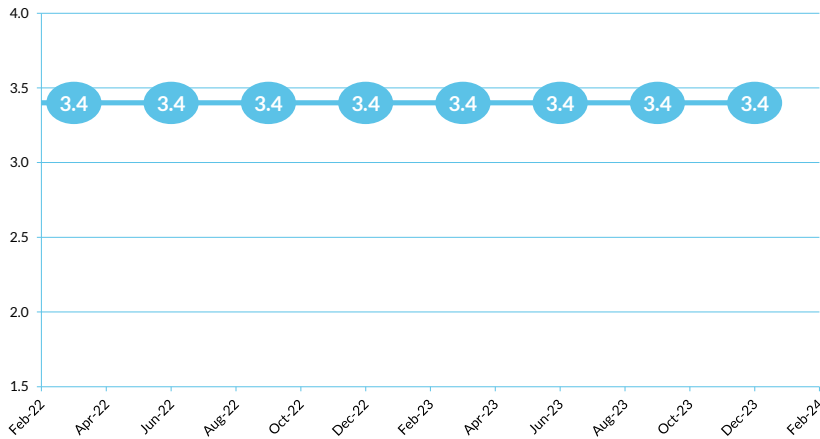
Emissions (tCO ₂ e)	Jun-21	Jun-22	Jun-23
Scope 1	65	35	30
Scope 2	3,763	3,469	3,568
Scope 3	3,937	4,966	7,061
Total emissions	7,765	8,470	10,659

Source: Company data, RHB

Latest ESG-Related Developments

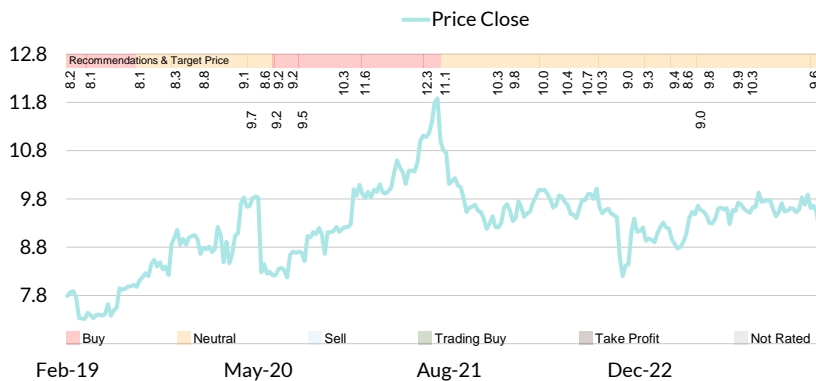
- SGX's disclosure of climate-related risks and opportunities uses scenario analysis, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
- SGX's shelf of offerings and suite of ESG products have been continuously expanding. For example, in FY2023, it worked 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
2024-01-15	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

RHB Guide to Investment Ratings

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

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