

12 August 2024

Financial Services | Exchanges

## Singapore Exchange (SGX SP)

## Neutral (Maintained)

### Moderate Earnings Growth And Unexciting Yield

Target Price (Return): SGD10.80 (10.0%)  
 Price (Market Cap): SGD9.82 (USD7,928m)  
 ESG score: 3.4 (out of 4)  
 Avg Daily Turnover (SGD/USD) 17.2m/12.8m

- **Still NEUTRAL, new SGD10.80 TP (from SGD10.40), 10% upside.** Singapore Exchange's FY24 (Jun) core profit was c.5% above estimates due to better cost control and higher-than-estimated other income. It also paid a higher final dividend. We raise FY25-26 profit by 5-6% to account for higher revenue and better margins. We see downside risks to our treasury income estimates amidst potentially lower interest rates. Our estimated securities daily average traded value (SDAV) and derivatives average daily volume (DDAV) increases are also likely priced in.
- **Management guidance.** SGX aims to grow revenue (excluding treasury income) at a 6-8% CAGR in the medium term. This will be driven mainly by low to mid-teen percentage growth in its over-the-counter (OTC) FX and exchange-traded derivatives businesses. SGX expects to achieve positive operating leverage as expense growth is anticipated to be in the low to mid-single-digit percentage CAGR in the medium term. It expects FY25 expenses to grow by 2-4% YoY, while capex is expected to be at SGD70-75m. Beyond FY25, capex is expected to further increase due to continued investments in the modernisation of its exchange trading and clearing platforms and data centre. SGX expects capex to remain below the historical average of 7% of revenue over the next cycle. It also reiterated its medium-term target to grow DPS at a mid-single-digit percentage CAGR.
- **Our estimates.** We expect the derivatives business' revenue growth to significantly exceed the growth in securities business revenue. Within the derivatives business, we expect volumes for currencies and commodities (CC) to significantly exceed the volumes for equity derivatives, with CC derivatives volumes surpassing equity derivatives volumes before the end of FY27. Fixed income, currencies, and commodities (FICC) revenue should register a c.14% CAGR during FY24-27. Overall revenue should grow at a c.5% CAGR during the same period. Thanks to margin expansion, recurring products should grow at a c.6% CAGR for FY24-27. We estimate DPS to grow at a c.4% CAGR during the forecast period. SGX expects (and we agree) an increase in equity listings in the coming years.
- **Unexciting yield and ESG premium.** Despite SGX's plans to boost dividends, its forward yield of 3.6% and FY27 yield of 4.0% remain unexciting compared to the Singapore equity market's yield. 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 SGD10.20.

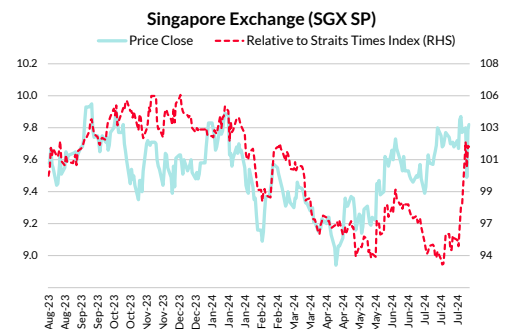
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(0.1)	2.6	7.4	6.2	1.1
Relative	(0.8)	6.8	7.5	2.4	2.7
52-wk Price low/high (SGD)				8.94	-9.95



Source: Bloomberg

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (SGDm)	1,194	1,232	1,284	1,357	1,431
Recurring net profit (SGDm)	504	532	556	598	640
Recurring net profit growth (%)	13.1	5.5	4.5	7.6	6.9
Recurring P/E (x)	20.82	19.73	18.89	17.55	16.42
P/B (x)	6.2	5.4	4.9	4.5	4.1
P/CF (x)	23.50	17.05	15.08	16.54	15.60
Dividend Yield (%)	3.3	3.5	3.6	3.8	4.0
EV/EBITDA (x)	13.87	13.26	12.52	11.54	10.64
Return on average equity (%)	35.2	32.7	27.2	26.8	26.2
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.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Jun-23</b>	<b>Jun-24</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
Singapore	Recurring EPS	0.47	0.50	0.52	0.56	0.60
Financial Services	DPS	0.32	0.34	0.36	0.38	0.39
<b>Singapore Exchange</b>	BVPS	1.59	1.83	2.00	2.18	2.39
SGX SP	Return on average equity (%)	35.2	32.7	27.2	26.8	26.2
Neutral						
	<b>Valuation metrics</b>	<b>Jun-23</b>	<b>Jun-24</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	20.82	19.73	18.89	17.55	16.42
We use P/E valuation as share price is sensitive to near-term earnings volatility.	P/B (x)	6.2	5.4	4.9	4.5	4.1
	FCF Yield (%)	3.7	5.3	6.0	5.3	5.6
	Dividend Yield (%)	3.3	3.5	3.6	3.8	4.0
	EV/EBITDA (x)	13.87	13.26	12.52	11.54	10.64
	EV/EBIT (x)	16.19	15.36	14.11	12.86	11.78
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Jun-23</b>	<b>Jun-24</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
Our FY25 earnings forecast is most sensitive to changes in:	Total turnover	1,194	1,232	1,284	1,357	1,431
i. Total securities trading volume;	Gross profit	1,194	1,232	1,284	1,357	1,431
ii. Total derivatives trading volume;	EBITDA	688	702	721	765	808
iii. Effective trading and clearing rate.	Depreciation and amortisation	(98)	(96)	(82)	(78)	(78)
	Operating profit	590	606	640	686	730
	Net interest	113	137	38	43	49
<b>Key risks</b>	Pre-tax profit	674	709	671	722	772
Key downside risks to our call include:	Taxation	(103)	(111)	(115)	(124)	(132)
i. Lower-than-expected securities market turnover;	Reported net profit	571	598	556	598	640
ii. Lower-than-expected trading in derivative contracts;	Recurring net profit	504	532	556	598	640
iii. Lower-than-expected clearing and trading rate.						
The converse represents upside risks.	<b>Cash flow (SGDm)</b>	<b>Jun-23</b>	<b>Jun-24</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
	Change in working capital	(162)	1	102	4	4
	Cash flow from operations	447	616	697	635	673
	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	1,288	1,492
	Net change in cash	26	18	285	202	225
	Ending balance cash	1,033	998	1,283	1,490	1,717
	<b>Balance sheet (SGDm)</b>	<b>Jun-23</b>	<b>Jun-24</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
	Total cash and equivalents	1,067	1,134	1,423	1,628	1,852
	Tangible fixed assets	193	190	178	175	177
	Total investments	580	695	695	695	695
	Total assets	3,781	3,985	4,286	4,482	4,770
	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	2,137	2,334	2,557
	Total liabilities & equity	3,781	3,985	4,286	4,482	4,770
	<b>Key metrics</b>	<b>Jun-23</b>	<b>Jun-24</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
	Revenue growth (%)	8.7	3.1	4.3	5.7	5.5
	Recurrent EPS growth (%)	13.1	5.5	4.5	7.6	6.9
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	57.6	57.0	56.2	56.4	56.5
	Net profit margin (%)	47.8	48.5	43.3	44.1	44.7
	Dividend payout ratio (%)	60.8	61.7	68.3	67.0	65.2
	Capex/sales (%)	4.5	5.2	5.5	5.5	5.6
	Interest cover (x)	81.3	58.8	55.3	71.2	113.5

Source: Company data, RHB

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Figure 1: FY24 results update

	1HFY23	2HFY23	1HFY24	2HFY24	HoH (%)	YoY (%)	2023	2024	YoY (%)	% of forecast
Operating revenue	571.4	623.0	592.2	639.4	8.0	2.6	1,194.4	1,231.7	3.1	100.9
Operating expenses	(287.4)	(317.5)	(296.1)	(329.2)	11.2	3.7	(604.9)	(625.3)	3.4	98.3
<b>Operating profit</b>	<b>284.1</b>	<b>305.5</b>	<b>296.1</b>	<b>310.2</b>	<b>4.8</b>	<b>1.6</b>	<b>589.5</b>	<b>606.4</b>	<b>2.9</b>	<b>103.8</b>
EBITDA	334.1	353.8	344.6	357.6	3.8	1.1	687.9	702.2	2.1	103.1
Other gains/(losses)	61.2	38.6	48.3	68.8	42.7	78.4	99.8	117.1	17.3	146.6
<b>PBT</b>	<b>345.3</b>	<b>344.1</b>	<b>344.4</b>	<b>379.1</b>	<b>10.1</b>	<b>10.2</b>	<b>689.4</b>	<b>723.5</b>	<b>4.9</b>	<b>109.0</b>
Share of associates/JVs	(10.3)	(5.3)	(7.3)	(7.1)	(3.2)	34.9	(15.6)	(14.5)	(7.0)	108.4
Tax	(50.4)	(52.9)	(55.7)	(55.7)	0.1	5.4	(103.3)	(111.4)	7.9	101.3
<b>PAT</b>	<b>284.6</b>	<b>285.9</b>	<b>281.4</b>	<b>316.2</b>	<b>12.4</b>	<b>10.6</b>	<b>570.6</b>	<b>597.6</b>	<b>4.7</b>	<b>110.6</b>
Minority interest	(0.1)	0.4	0.2	0.1	(61.8)	(77.4)	0.3	0.3	(0.3)	72.0
<b>PATAMI</b>	<b>284.6</b>	<b>286.3</b>	<b>281.6</b>	<b>316.3</b>	<b>12.3</b>	<b>10.5</b>	<b>570.9</b>	<b>597.9</b>	<b>4.7</b>	<b>110.5</b>
<b>Core PATAMI</b>	<b>238.6</b>	<b>265.6</b>	<b>252.7</b>	<b>279.3</b>	<b>10.5</b>	<b>5.2</b>	<b>504.1</b>	<b>532.0</b>	<b>5.5</b>	<b>104.8</b>
<b>Operating revenue (SGDm)</b>										
FICC	154.3	183.9	151.9	170.6	12.3	(7.2)	338.2	322.5	(4.6)	101.6
Equities (cash)	171.2	175.0	159.6	175.3	9.9	0.2	346.1	334.9	(3.2)	100.4
Equities (derivatives)	173.5	189.6	160.7	173.4	7.9	(8.5)	363.1	334.0	(8.0)	103.0
Platform and Others	72.5	74.6	120.1	120.1	0.0	61.1	147.1	240.2	63.3	98.0
SDAV (SGDm)	1,087	1,117	962	1,159	20.6	3.8	1,102	1,059	(3.9)	
DDAV (m)	1.01	0.99	1.03	1.14	11.2	15.2	1.00	1.09	8.2	

Source: Company data, RHB

Figure 2: FY24 SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
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	26,525			23	1,153		
Period	Total turnover (SGDm)		YoY (%)	Trading days	SDAV (SGDm)		YoY (%)
YTD-FY21	25,465		5%	21	1,213		15%
YTD-FY22	25,072		-2%	21	1,194		-2%
YTD-FY23	18,020		-28%	20	901		-25%
YTD-FY24	21,504		19%	21	1,024		14%
YTD-FY25	26,525		23%	23	1,153		13%

Source: Company data, RHB

Figure 3: FY24 DDAV data

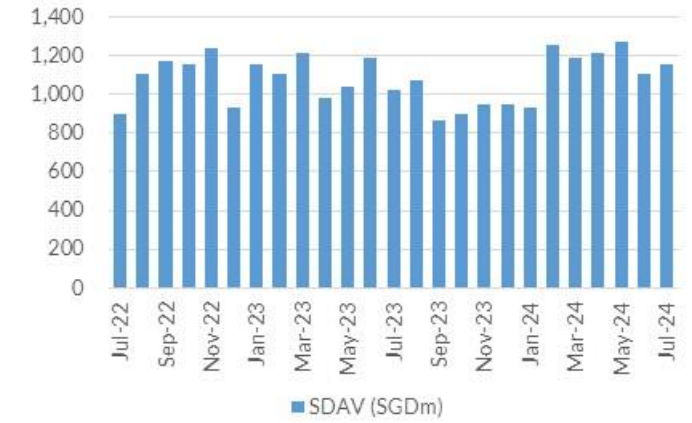
Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
1QFY23	63,186,909	-5%	4%	64	0.99	-10%	4%
2QFY23	65,507,128	4%	18%	63	1.04	5%	21%
3QFY23	62,727,026	-4%	-3%	62	1.01	-3%	-3%
4QFY23	59,541,157	-5%	-11%	61	0.98	-4%	-11%
1QFY24	65,625,547	10%	4%	63	1.04	7%	6%
2QFY24	64,109,564	-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	23,507,300	-67%	-64%	23	1.02	-12%	-2%
Period	Volume (contracts)		YoY (%)	Trading days	DDAV (m)		YoY (%)
YTD-FY21	23,806,258		26%	22	1.08		31%
YTD-FY22	20,377,705		-14%	21	0.97		-10%
YTD-FY23	20,509,474		1%	20	1.03		6%
YTD-FY24	20,471,824		0%	21	0.97		-5%
YTD-FY25	23,507,300		15%	23	1.02		5%

Source: Company data, RHB

Figure 4: Monthly securities market turnover (until Jul 2024)



Figure 5: Monthly SDAV (until Jul 2024)



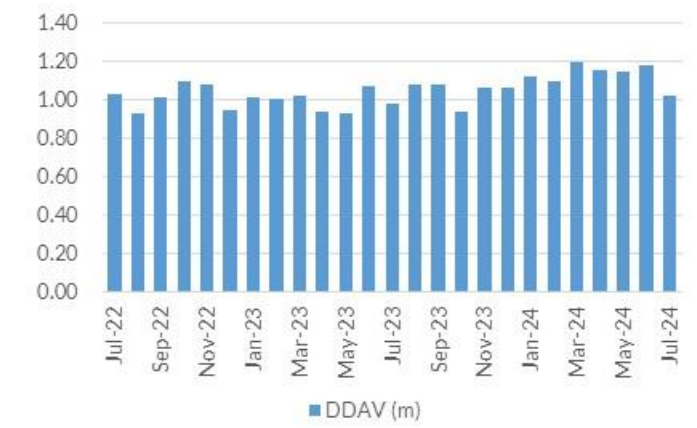
Source: Company data, RHB

Source: Company data, RHB

Figure 6: Monthly derivatives trading volumes (until Jul 2024)



Figure 7: Monthly DDAV (until Jul 2024)



Source: Company data, RHB

Source: Company data, RHB

Figure 8: FY25F earnings sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.13	1.15	1.18	1.19	1.23	1.25	1.28
855	486	496	505	511	524	533	543
930	501	511	520	526	539	548	558
1,005	516	526	535	541	554	563	573
<b>1,081</b>	<b>532</b>	<b>541</b>	<b>550</b>	<b>556</b>	<b>569</b>	<b>579</b>	<b>588</b>
1,155	546	556	565	571	584	593	603
1,230	561	571	580	586	599	608	618
1,305	576	585	595	601	614	623	632

Source: Bloomberg, RHB

Figure 9: TP sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.13	1.15	1.18	1.19	1.23	1.25	1.28
855	9.5	9.6	9.9	10.0	10.3	10.4	10.6
930	9.8	10.0	10.2	10.3	10.5	10.7	10.9
1,005	10.1	10.3	10.5	10.6	10.8	11.0	11.1
<b>1,081</b>	<b>10.4</b>	<b>10.6</b>	<b>10.7</b>	<b>10.8</b>	<b>11.1</b>	<b>11.3</b>	<b>11.4</b>
1,155	10.7	10.8	11.0	11.1	11.4	11.6	11.8
1,230	10.9	11.1	11.3	11.4	11.7	11.9	12.1
1,305	11.2	11.4	11.7	11.8	12.0	12.2	12.3

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 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.

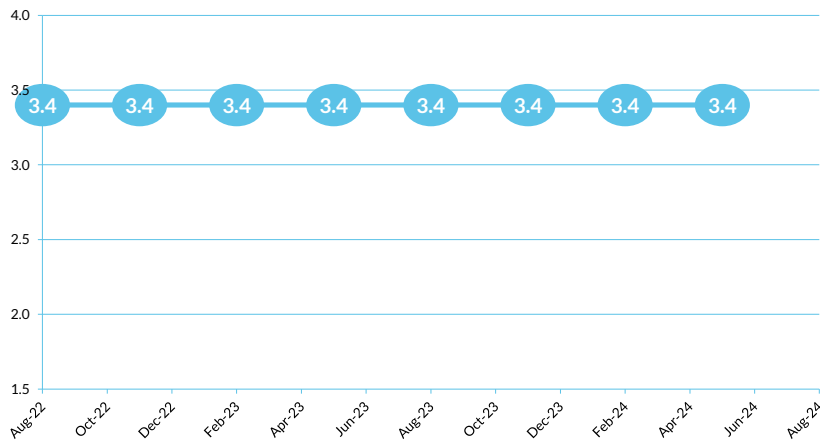
Emissions (tCO <sub>2</sub> e)	Jun-22	Jun-23	Jun-24
Scope 1	35	30	na
Scope 2	3,469	3,568	na
Scope 3	4,966	7,061	na
Total emissions	8,470	10,659	na

Source: Company data, RHB

## Latest ESG-Related Developments

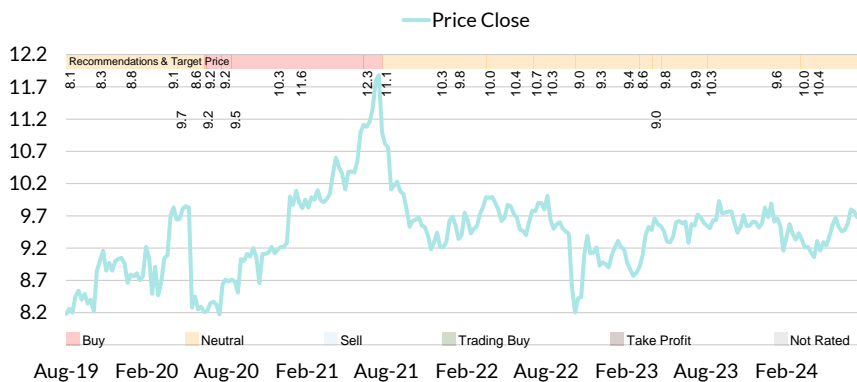
- SGX's disclosure of climate-related risks and opportunities uses scenario analysis, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
- SGX's shelf of offerings and suite of ESG products have been continuously expanding. For example, in FY2023, it worked 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
2024-07-09	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
2022-10-19	Neutral	9.0	8.5

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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