

16 October 2024

Financial Services | Exchanges

## Singapore Exchange (SGX SP)

## Neutral (Maintained)

### Volatility Is a Friend; Strong Operating Data

Target Price (Return): SGD11.40 (-2.6%)  
 Price (Market Cap): SGD11.70 (USD9,583m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (SGD/USD) 28.6m/21.9m

- **NEUTRAL and SGD11.40 TP, 3% downside.** Singapore Exchange booked an exceptionally strong September and 1QFY25 (Jun) operating statistics, aided by softening monetary policies, investors shifting portfolios to China post its stimulus announcement, and improved economic development indicators here. If 1QFY25's strong data sustains in 2QFY25, it increases our estimates and TP by 5%. We still expect trading activity moderation in 2HFY25. We see downside risks to our treasury income estimates too amidst falling interest rates, and maintain that SGX's c.3% forward yield stays unexciting.
- **Strong trading data.** September turnover of SGD30.4bn and securities daily average traded value (SDAV) of SGD1.45m were up 75% and 67% YoY, aided by strong rises in the turnover for the top three sectors: Financials (which includes REITs), industrials, and telecoms. 1QFY25 turnover and SDAV were up 17% and 10% YoY (Figure 1). SGX noted that Singapore's stock market was the second most actively traded in the region in September. Increased market volatility – arising from China's stimulus announcement – drove the volumes for derivative products higher across equities, FX, and commodities. September derivatives volume of 28.9m contracts and derivatives daily average volume (DDAV) of 1.37m contracts were up 34% and 28% YoY. 1QFY25 derivatives volume and DDAV were up 9% and 3% YoY (Figure 2). The implied 1HFY25 SDAV and DDAV exceeded our estimates by 10% and 6%.
- **Earnings sensitivity.** We expect the market volatility to persist in the near term, as investors await clarity on the interest rate outlook, outlook for Chinese economic growth amidst the announced stimulus package, and outcome of the US election. While we expect this volatility to subside in 2HFY25, we assess that, if the strong data from 1QFY25 sustains in 2QFY25, it would increase our FY25-26F earnings by 4.5% each and increase our TP by 5%. We have included our FY25F earnings and TP sensitivity to changes in SDAV and DDAV in Figures 7 and 8.
- **Unexciting yield, valuation basis, and upside risks.** In line with management's guidance of increasing dividends, we have already built in a 4% DPS CAGR during FY24-27. However, SGX's forward yield of c.3% remains unexciting. We continue to value this counter based on c.21x forward P/E, which is in line with its historical average. Our TP includes a 4% ESG premium to its fair value of SGD11, given SGX's 3.3 ESG score vs 3.1 country median. The elevated SDAV and DDAV for the rest of FY25 and sustained improvement in trading volumes on the SGX – as a positive outcome from the Monetary Authority of Singapore's review – are the key upside risks.

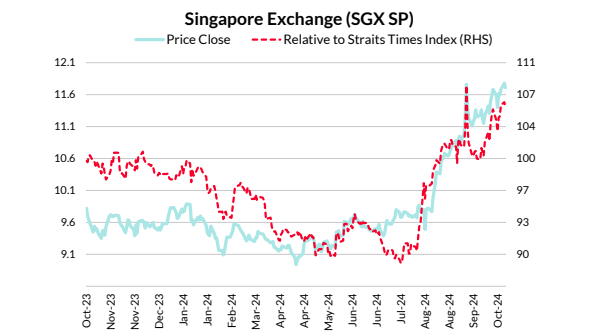
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.1	4.3	20.1	29.4	19.9
Relative	8.1	3.4	17.4	16.5	7.0
52-wk Price low/high (SGD)	8.94 – 11.8				



Source: Bloomberg

#### Overall ESG Score: 3.3 (out of 4)

#### E: GOOD

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 FY31 from the base year as of FY21. 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: EXCELLENT

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)	24.83	23.53	21.45	20.26	18.96
P/B (x)	7.4	6.4	5.8	5.3	4.8
P/CF (x)	28.02	20.33	17.29	19.13	18.04
Dividend Yield (%)	2.8	2.9	3.0	3.2	3.3
EV/EBITDA (x)	16.81	16.14	14.60	13.69	12.66
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

<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	0.55	0.58	0.62
Financial Services	DPS	0.32	0.34	0.36	0.38	0.39
<b>Singapore Exchange</b>	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						
	<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)	24.83	23.53	21.45	20.26	18.96
We use P/E valuation as share price is sensitive to near-term earnings volatility.	P/B (x)	7.4	6.4	5.8	5.3	4.8
	FCF Yield (%)	3.1	4.4	5.2	4.6	4.9
	Dividend Yield (%)	2.8	2.9	3.0	3.2	3.3
<b>Key drivers</b>	EV/EBITDA (x)	16.81	16.14	14.60	13.69	12.66
Our earnings forecast is most sensitive to changes in:	EV/EBIT (x)	19.61	18.69	16.37	15.20	13.97
i. Total securities trading volume;						
ii. Total derivatives trading volume;						
iii. Effective trading and clearing rate.						
	<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>
<b>Key risks</b>	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
	Net interest	113	137	38	43	49
The converse represents upside risks.	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
<b>Company Profile</b>	<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>
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
	<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	1,451	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
	<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	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

Figure 1: Sep 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	85,666	17%	37%	65	1,318	10%	33%
Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)		
YTD-FY20	67,806	0%	64	1,059	-1%		
YTD-FY21	77,918	15%	63	1,237	17%		
YTD-FY22	78,363	1%	64	1,224	-1%		
YTD-FY23	68,093	-13%	64	1,064	-13%		
YTD-FY24	62,426	-8%	63	991	-7%		
YTD-FY25	85,666	37%	65	1,318	33%		

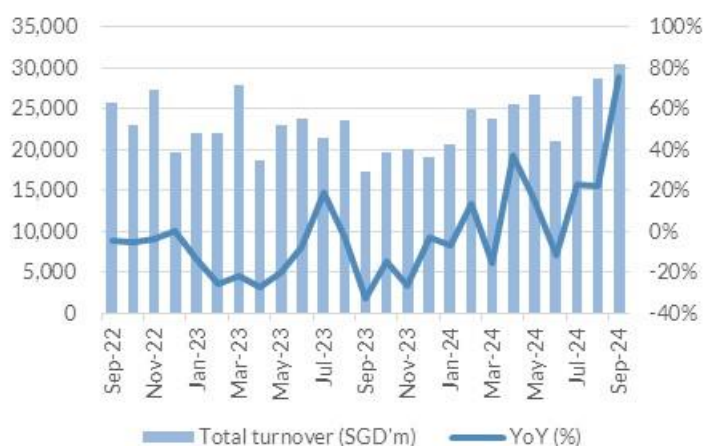
Source: Company data, RHB

Figure 2: Sep 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	76,951,921	9%	17%	65	1.18	3%	14%
Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)		
YTD-FY20	61,881,239	14%	64	0.97	12%		
YTD-FY21	63,903,873	3%	64	1.00	3%		
YTD-FY22	61,046,575	-4%	64	0.95	-4%		
YTD-FY23	63,186,909	4%	64	0.99	4%		
YTD-FY24	65,625,547	4%	63	1.04	6%		
YTD-FY25	76,951,921	17%	65	1.18	14%		

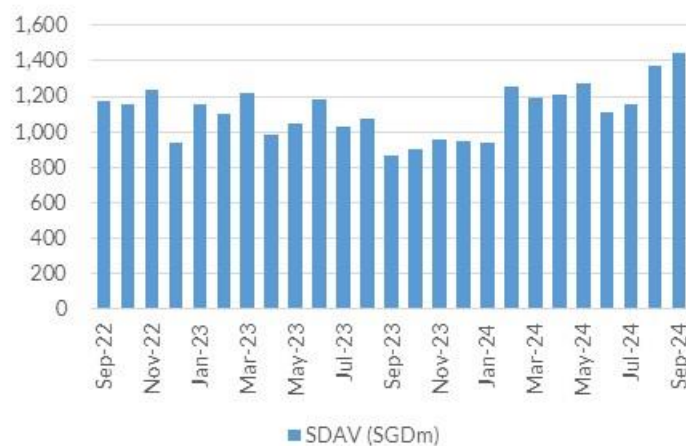
Source: Company data, RHB

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



Source: Company data, RHB

Figure 4: Monthly SDAV (until Sep 2024)

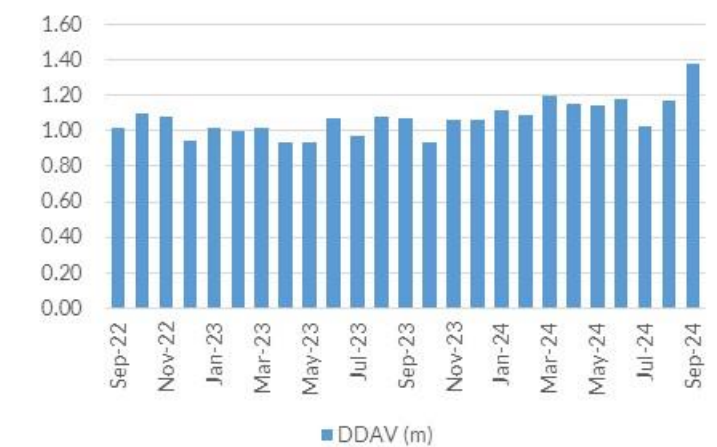


Source: Company data, RHB

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



Figure 6: Monthly DDAV (until Sep 2024)



Source: Company data, RHB

Source: Company data, RHB

Figure 7: FY25F earnings sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.11	1.14	1.17	1.20	1.23	1.26	1.29
1,022	514	525	537	548	559	570	582
1,082	526	537	549	560	571	582	594
1,142	538	549	561	572	583	594	606
<b>1,203</b>	<b>550</b>	<b>561</b>	<b>573</b>	<b>584</b>	<b>595</b>	<b>606</b>	<b>618</b>
1,263	562	573	585	596	607	618	630
1,323	574	585	597	608	619	630	642
1,383	586	597	608	620	631	642	654

Source: Bloomberg, RHB

Figure 8: TP sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	1.11	1.14	1.17	1.20	1.23	1.26	1.29
1,022	10.1	10.3	10.5	10.7	11.0	11.2	11.4
1,082	10.3	10.5	10.8	11.0	11.2	11.4	11.6
1,142	10.6	10.8	11.0	11.2	11.4	11.6	11.9
<b>1,203</b>	<b>10.8</b>	<b>11.0</b>	<b>11.2</b>	<b>11.4</b>	<b>11.6</b>	<b>11.9</b>	<b>12.2</b>
1,263	11.0	11.2	11.4	11.6	12.0	12.2	12.4
1,323	11.2	11.4	11.8	12.0	12.2	12.4	12.6
1,383	11.5	11.8	12.0	12.2	12.4	12.6	12.8

Source: Bloomberg, RHB

## Emissions And ESG

### Trend analysis

SGX's Scope 2 (its key focus area) and Scope 3 emissions have seen an increase in FY24. SGX noted that this was a temporary increase caused by the reconfiguration and consolidation of its office footprint and data centres in Singapore. SGX has seen reductions in its monthly Scope 2 emissions following the completion of the consolidation in 2HFY24. It remains on track to reduce Scope 2 absolute emissions by 42% by FY31 from its FY21 baseline.

### Emissions (tCO2e)

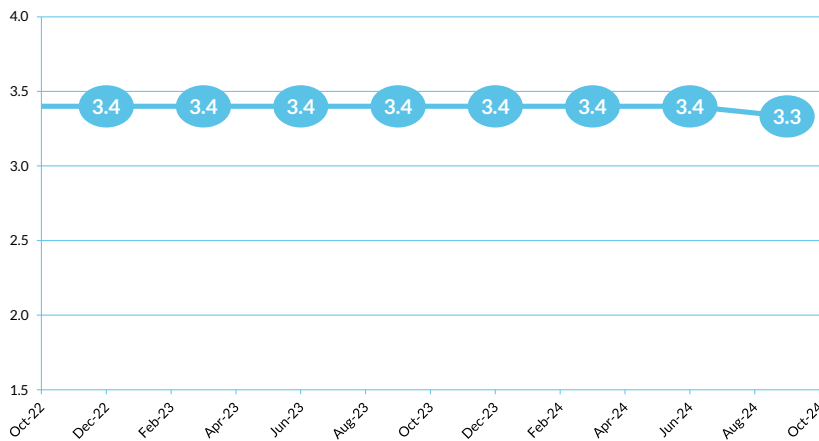
	Jun-22	Jun-23	Jun-24
Scope 1	35	30	32
Scope 2	3,469	3,568	3,947
Scope 3	4,966	7,062	14,437
<b>Total emissions</b>	<b>8,470</b>	<b>10,660</b>	<b>18,416</b>

Source: Company data, RHB

## Latest ESG-Related Developments

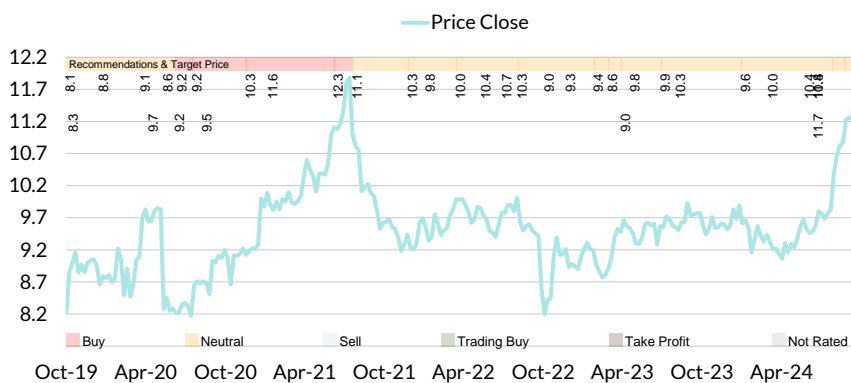
- In FY24, SGX launched its first climate transition plan, and invested in a carbon management and accounting system to enhance data quality and timeliness for its own reporting.
- SGX's shelf of offerings and suite of ESG products have been continuously expanding. For example, in Sep 2023, SGX saw the listing of iShares MSCI Asia ex Japan Climate Action ETF. The fund aims to track the performance of MSCI AC Asia ex Japan Climate Action Index and includes ESG factors as its key investment strategy, with a focus on climate transition. Similarly, SGX has also launched the UOB APAC Green REIT ETF, Lion-OCBC Securities Singapore Low Carbon ETF, and CSOP CGS-CIMB FTSE Asia Pacific Low Carbon Index ETF. As of 30 Jun 2024, the sustainability-themed ETFs had total AUM of SGD927m.
- SGX remains the number one listing venue for international G3 currency Green, Social, Sustainability, and Sustainability-linked (GSSS) bonds by APAC issuers and about 15% of our total new listings in FY24 were GSSS bonds.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-09-24	Neutral	11.4	11.4
2024-09-09	Neutral	11.7	11.0
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

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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