

17 November 2023

Financial Services | Exchanges

## Singapore Exchange (SGX SP)

**Neutral** (Maintained)

### Securities Trading Data Continues To Disappoint

Target Price (Return):	SGD10.30 (+8%)
Price (Market Cap):	SGD9.56 (USD7,590m)
ESG score:	3.4 (out of 4)
Avg Daily Turnover (SGD/USD)	15.8m/11.6m

- **Maintain NEUTRAL and SGD10.30 TP, 8% upside with c.4% FY24 (Jun) yield.** The disappointing market data from 1QFY24 for the cash equities business has trickled over to October. We maintain our earnings estimates, but annualising current operating data would lower our TP by 10% (see our sensitivity analysis in Figures 7 and 8). Macroeconomic uncertainty, while positive for derivatives volumes, will continue to weigh on cash equity trading volume in the near term, and a dip in treasury income is expected in CY24 amid an eventual fall in interest rates.

- **Securities turnover and SDAV are well below our FY24 estimates.** Although the total securities market turnover value gained 14% MoM in October to SGD19.7bn and the securities daily average value (SDAV) climbed 4% MoM to SGD897m, both numbers were down YoY. The benchmark Straits Times Index was down 4.7% MoM in October. During the month, Singapore Exchange saw the listings of Sheffield Green and Niks Professional on its Catalist Board. The YTD securities market turnover value and SDAV for FY24 are tracking 10% and 11% below the numbers for the same period in FY23. The implied FY24F SDAV, based on data through September, is 14.8% below our estimate. We have included a sensitivity analysis to FY24 earnings and our TP in our report.

- **Derivatives volumes were down.** Derivatives traded volume dropped by 6% YoY and 4% MoM in Oct to 20.6m contracts. Derivatives daily average volume (DDAV) came in at 0.94m contracts (-15% YoY, -13% MoM). However, concerns over China's economic future and uncertainties about the direction of interest rates globally remained major issues, boosting trade activity and risk management in some asset classes. Equity index futures traded volume rose 6% MoM to 12.4m contracts, led by a 6% MoM increase in SGX FTSE China A50 Index Futures volume. Total commodity derivatives traded volume rose 57% YoY to 4.5m contracts. The total FX futures traded volume rose 1% YoY to 3.3m contracts. YTD derivatives traded volumes and DDAV for FY24 are tracking 1% above and unchanged from the same period in FY23. The implied FY24F DDAV, based on data through September, is in line with our estimate.

- **Lacks near-term catalysts.** While fixed income, currencies, and commodities or FICC will be growth drivers for SGX over the longer term – given the uncertain macroeconomic outlook and likelihood of a decline in interest rates in 2024 – the near-term growth outlook has downside risks. Despite SGX's plans to boost dividends by a mid-single-digit percentage in the medium term, its yield is below the market yield of 5.6%. Our TP includes an 8% ESG premium to FV, which is based on 21x FY24F P/E.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (SGDm)	1,099	1,194	1,199	1,240	1,284
Recurring net profit (SGDm)	448	460	498	522	541
Recurring net profit growth (%)	2.0	2.7	8.3	4.9	3.6
Recurring P/E (x)	22.83	22.23	20.52	19.57	18.88
P/B (x)	6.6	6.0	5.5	5.1	4.7
P/CF (x)	17.52	22.87	17.43	18.16	17.72
Dividend Yield (%)	3.3	3.4	3.5	3.6	3.6
EV/EBITDA (x)	14.61	13.47	13.74	13.17	12.56
Return on average equity (%)	30.8	35.2	28.1	27.2	25.9
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

#### Analyst

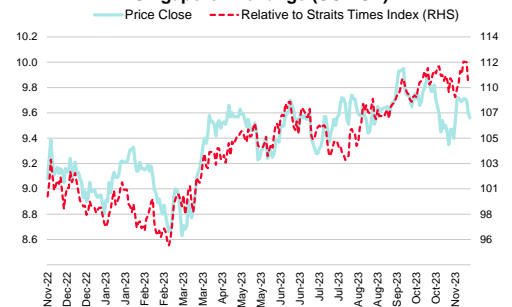
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.8	(2.2)	(1.1)	1.1	5.3
Relative	10.5	(1.2)	1.4	3.7	9.4
52-wk Price low/high (SGD)	8.63 – 9.95				

#### Singapore Exchange (SGX SP)



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. In FY20, it bought RE certificates to offset 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 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 was ranked fourth in Singapore Governance & Transparency Index 2019.

## Financial Exhibits

Asia	Financial summary (SGD)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Singapore	Recurring EPS	0.42	0.43	0.47	0.49	0.51
Financial Services	DPS	0.32	0.32	0.34	0.34	0.34
<b>Singapore Exchange</b>	BVPS	1.44	1.59	1.72	1.87	2.04
SGX SP	Return on average equity (%)	30.8	35.2	28.1	27.2	25.9
Neutral						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Recurring P/E (x)	22.83	22.23	20.52	19.57	18.88
	P/B (x)	6.6	6.0	5.5	5.1	4.7
	FCF Yield (%)	5.3	3.8	5.1	4.8	5.0
	Dividend Yield (%)	3.3	3.4	3.5	3.6	3.6
	EV/EBITDA (x)	14.61	13.47	13.74	13.17	12.56
	EV/EBIT (x)	17.24	15.72	15.71	14.89	14.09
	Income statement (SGDm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total turnover	1,099	1,194	1,199	1,240	1,284
	Gross profit	1,099	1,194	1,199	1,240	1,284
	EBITDA	634	688	660	676	693
	Depreciation and amortisation	(97)	(98)	(83)	(78)	(75)
	Operating profit	537	590	577	597	618
	Net interest	9	113	38	40	43
	Pre-tax profit	545	674	603	631	654
	Taxation	(93)	(103)	(104)	(108)	(112)
	Reported net profit	451	571	498	522	541
	Recurring net profit	448	460	498	522	541
	Cash flow (SGDm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	16	(162)	38	2	2
	Cash flow from operations	584	447	586	562	576
	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	1,229	1,399
	Net change in cash	(75)	26	196	169	186
	Ending balance cash	998	1,033	1,229	1,399	1,584
	Balance sheet (SGDm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	1,092	1,067	1,263	1,432	1,618
	Tangible fixed assets	251	193	180	172	167
	Total investments	609	580	580	580	580
	Total assets	3,848	3,781	3,740	3,930	4,142
	Short-term debt	42	352	352	352	352
	Total long-term debt	694	340	340	340	340
	Total liabilities	2,299	2,078	1,896	1,927	1,961
	Total equity	1,549	1,704	1,844	2,003	2,181
	Total liabilities & equity	3,848	3,781	3,740	3,930	4,142
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	4.1	8.7	0.4	3.4	3.5
	Recurrent EPS growth (%)	2.1	2.7	8.3	4.9	3.6
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	57.7	57.6	55.0	54.5	54.0
	Net profit margin (%)	41.1	47.8	41.5	42.1	42.1
	Dividend payout ratio (%)	75.8	60.8	71.9	69.6	67.1
	Capex/sales (%)	4.0	4.5	5.8	5.6	5.5
	Interest cover (x)	72.8	81.3	79.4	86.3	89.3

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 declined to 30 tCO2e from 45 tCO2e. Also, in the same period, Scope 2 emissions decreased from 4,352 tCO2e to 3,568 tCO2e.

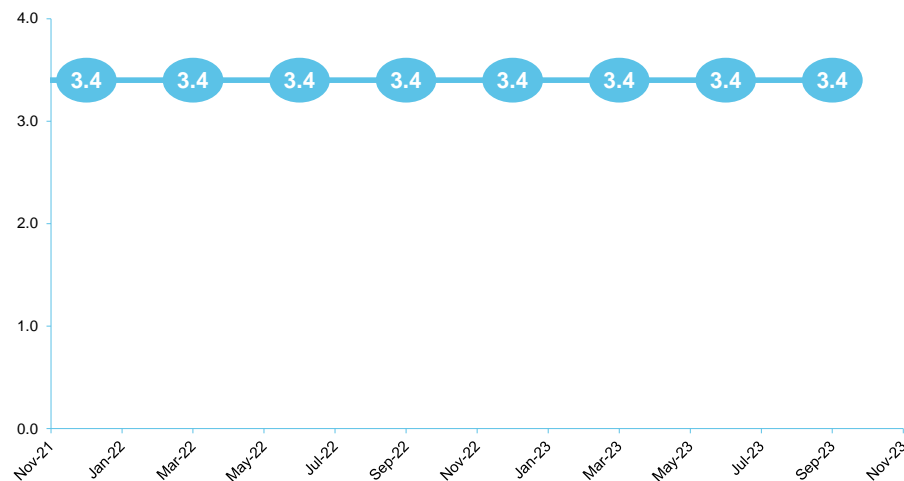
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	65	35	30
Scope 2	3,763	3,469	3,568
Scope 3	3,937	4,966	7,061
Total emissions	7,765	8,470	10,659

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 foundation for being the exchange of choice for climate and sustainability-related products and solutions.

## ESG Rating History



Source: RHB

Figure 1: FY24 (until October) SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
2QFY22	72,081	-8%	-14%	65	1,109	-9%	-14%
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	19,741			22	897		

Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)
YTD-FY19	91,828	-6%	86	1,068	-8%
YTD-FY20	89,377	-3%	86	1,039	-3%
YTD-FY21	101,140	13%	85	1,190	14%
YTD-FY22	102,689	2%	85	1,208	2%
YTD-FY23	91,183	-11%	84	1,086	-10%
YTD-FY24	82,167	-10%	85	967	-11%

Source: Company data, RHB

Figure 2: FY24 (until October) DDAV data

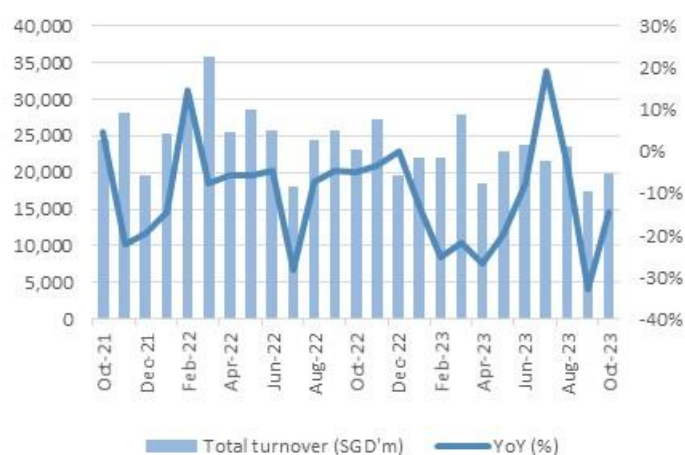
Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
2QFY22	55,687,092	-9%	4%	65	0.86	-10%	4%
3QFY22	64,888,445	17%	7%	62	1.05	22%	7%
4QFY22	66,616,829	3%	22%	61	1.09	4%	24%
1QFY23	63,186,909	-5%	4%	64	0.99	-10%	4%
2QFY23	65,507,128	4%	18%	63	1.04	5%	21%
3QFY23	62,727,026	-4%	-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	20,607,223			22	0.94		

Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)
YTD-FY19	76,215,171	25%	86	0.89	22%
YTD-FY20	78,712,075	3%	86	0.92	3%
YTD-FY21	80,179,940	2%	86	0.93	2%
YTD-FY22	79,188,221	-1%	85	0.93	0%
YTD-FY23	85,147,280	8%	84	1.01	9%
YTD-FY24	86,232,770	1%	85	1.01	0%

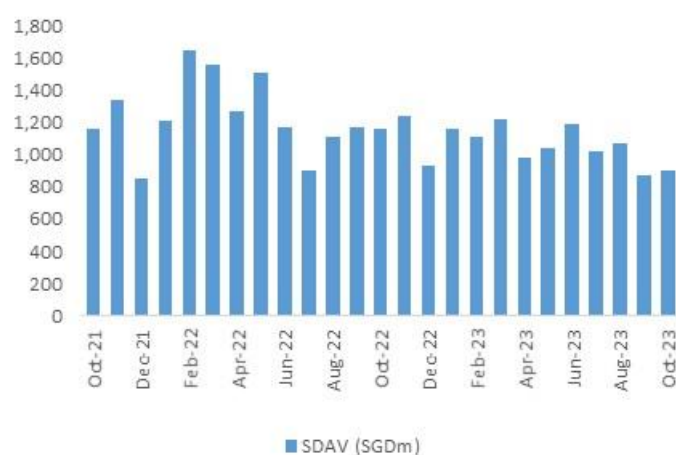
Source: Company data, RHB

Figure 3: Monthly securities market turnover (until October)



Source: Company data, RHB

Figure 4: Monthly SDAV (until October)



Source: Company data, RHB

Figure 5: Monthly derivatives trading volumes (until October) Figure 6: Monthly DDAV (until October)



Source: Company data, RHB

Source: Company data, RHB

Figure 7: FY24F earnings sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	0.93	0.95	0.98	1.05	1.03	1.05	1.08
925	401	412	422	<b>452</b>	443	453	464
1,000	416	427	437	<b>468</b>	458	469	479
1,075	432	442	453	<b>483</b>	474	484	495
<b>1,148</b>	<b>446</b>	<b>457</b>	<b>467</b>	<b>498</b>	<b>488</b>	<b>499</b>	<b>509</b>
1,225	462	473	483	<b>514</b>	504	515	525
1,300	477	488	498	<b>529</b>	519	530	540
1,375	493	503	514	<b>544</b>	535	545	556

Source: Bloomberg, RHB

Figure 8: TP sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	0.93	0.95	0.98	1.05	1.03	1.05	1.08
925	8.20	8.40	8.60	<b>9.30</b>	9.10	9.30	9.50
1,000	8.50	8.70	9.00	<b>9.60</b>	9.40	9.60	9.80
1,075	8.90	9.10	9.30	<b>9.90</b>	9.70	9.90	10.20
<b>1,148</b>	<b>9.20</b>	<b>9.40</b>	<b>9.60</b>	<b>10.30</b>	<b>10.00</b>	<b>10.30</b>	<b>10.50</b>
1,225	9.50	9.70	9.90	<b>10.60</b>	10.40	10.60	10.80
1,300	9.80	10.00	10.30	<b>10.80</b>	10.70	10.90	11.10
1,375	10.20	10.40	10.60	<b>11.10</b>	11.00	11.20	11.40

Source: Bloomberg, RHB

Figure 9: Forward P/E



Source: Company data, Bloomberg, RHB

Figure 10: Forward P/BV



Source: Company data, Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-01-18	Neutral	9.8	9.5

Source: RHB, Bloomberg

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