

14 March 2023

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Expecting Share Price Weakness To Persist

Neutral (Maintained)

Target Price (Return): SGD8.60 (0%)
Price (Market Cap): SGD8.63 (USD6,847m)
ESG score: 3.40 (out of 4)
Avg Daily Turnover (SGD/USD) 15.8m/11.8m

- **Keep NEUTRAL, with new SGD8.60 TP from SGD9.40, 0% downside.** Implied FY23F (Jun) securities daily average value (SDAV) and derivatives daily average volume (DDAV) based on operating data till February are tracking below our forecast. We lower FY23F-25F profit by 3% each to account for lower SDAV and DDAV. While we expect growth to resume in FY24F, near-term outlook for cash equities remains weak amid low market valuations and an uncertain macroeconomic outlook.

- **Securities volume grew YoY in February but was flat MoM.** Although the STI has outperformed its regional peers, the index was down 3.1% in February amid concerns that the US Federal Reserve could keep interest rates higher for longer, thereby translating into slower economic growth. The total securities market turnover value was also underwhelming at SGD22.1bn (-25% YoY, unchanged MoM), while the SDAV stood at SGD1.11bn (-33% YoY, -5% MoM). The YTD securities market turnover value and SDAV for FY23 are tracking 11% and 10% below the numbers for the same period in FY22. The implied FY23F SADV, based on data through February, is 2.6% below our estimate. In February, Singapore Exchange saw the listing of YKGI Limited, an established homegrown F&B operator, on its Catalist board. We believe SGX could continue to see weakness in its cash equity business and lower our FY23F SDAV estimates by 3%, which remain below consensus.

- **The derivatives business continues to register growth.** In February, the total derivatives traded volume was 19.9m contracts (+7% YoY, +4% MoM). DDAV amounted to 1.00m (-3% YoY, -1% MoM). SGX noted that optimism over China's reopening had lifted trading activity across multiple asset classes, especially in commodities and FX. The implied FY23F DADV, based on data through February, is 3.4% below our estimate. Accordingly, we lower our FY23F DDAV estimates by 1.4%.

- **Lowering target valuation amid a weak outlook and an unexciting yield.** We maintain that SGX's cash equity business will continue to underperform amidst decelerating global growth. Delays in major new equity listings amid low market valuation further lower the scope for a sharp increase in SDAV. Following our latest downgrade in earnings, our FY23F earnings are now 13% below consensus. Amid a weak earnings outlook and an uninspiring dividend yield of 3.7%, we lower our target P/E to 20x, which is now in line with -1SD from its historical 1-year forward P/E of 22x. Our TP includes an ESG premium of 8% over its fair value of SGD8.00.

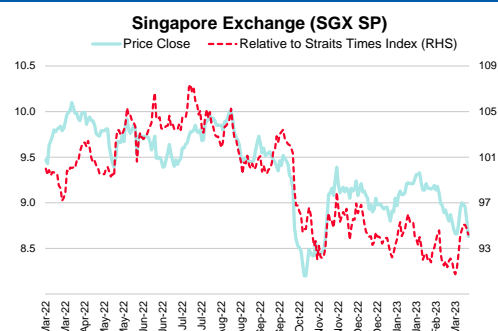
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.6)	(5.6)	(5.5)	(11.3)	(9.5)
Relative	0.1	0.2	(1.2)	(6.5)	(5.9)
52-wk Price low/high (SGD)	8.20 – 10.1				



Source: Bloomberg

Overall ESG Score: 3.40 (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 the Singapore Governance & Transparency Index 2019.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (SGDm)	1,056	1,099	1,106	1,163	1,225
Recurring net profit (SGDm)	447	456	420	451	484
Recurring net profit growth (%)	(7.3)	2.1	(8.0)	7.4	7.3
Recurring P/E (x)	20.67	20.22	21.98	20.47	19.07
P/B (x)	6.7	6.0	5.7	5.3	4.9
P/CF (x)	16.70	15.82	25.70	17.21	16.19
Dividend Yield (%)	3.7	3.7	3.7	3.7	3.7
EV/EBITDA (x)	12.66	12.41	13.00	12.11	11.13
Return on average equity (%)	33.9	30.8	26.4	26.7	26.5
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-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Singapore	Recurring EPS	0.42	0.43	0.39	0.42	0.45
Financial Services	DPS	0.32	0.32	0.32	0.32	0.32
Singapore Exchange	BVPS	1.29	1.44	1.53	1.63	1.78
SGX SP	Return on average equity (%)	33.9	30.8	26.4	26.7	26.5
Neutral						
	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Recurring P/E (x)	20.67	20.22	21.98	20.47	19.07
	P/B (x)	6.7	6.0	5.7	5.3	4.9
	FCF Yield (%)	5.5	5.8	3.1	5.1	5.5
	Dividend Yield (%)	3.7	3.7	3.7	3.7	3.7
	EV/EBITDA (x)	12.66	12.41	13.00	12.11	11.13
	EV/EBIT (x)	14.92	14.64	15.57	14.44	13.17
Valuation basis						
We use P/E valuation as share price is sensitive to near-term earnings volatility.						
Key drivers						
Our FY22F earnings is most sensitive to changes in:						
i. Total securities trading volume;						
ii. Total derivatives trading volume; and						
iii. Effective trading and clearing rate.						
Key risks						
Key downside risks to our call include:						
i. Lower-than-expected securities market turnover;						
ii. Lower-than-expected trading in derivative contracts; and						
iii. Lower-than-expected clearing and trading rate.						
The converse represents upside risks.						
Company Profile						
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						
	Income statement (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total turnover	1,056	1,099	1,106	1,163	1,225
	Gross profit	1,056	1,099	1,106	1,163	1,225
	EBITDA	625	634	606	639	680
	Depreciation and amortisation	(95)	(97)	(100)	(103)	(105)
	Operating profit	531	537	506	536	574
	Net interest	13	9	4	5	7
	Pre-tax profit	536	545	507	543	583
	Taxation	(91)	(93)	(87)	(92)	(99)
	Reported net profit	445	451	420	451	484
	Recurring net profit	447	456	420	451	484
	Cash flow (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Change in working capital	27	16	(146)	3	3
	Cash flow from operations	553	584	359	536	570
	Capex	(45)	(44)	(70)	(65)	(60)
	Cash flow from investing activities	(198)	(550)	(52)	(46)	(39)
	Dividends paid	(342)	(342)	(342)	(342)	(342)
	Cash flow from financing activities	(210)	(109)	(356)	(356)	(356)
	Cash at beginning of period	907	1,060	998	948	1,083
	Net change in cash	145	(75)	(49)	134	175
	Ending balance cash	1,060	998	948	1,083	1,257
	Balance sheet (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	1,101	1,092	1,043	1,177	1,351
	Tangible fixed assets	285	251	246	233	213
	Total investments	223	315	315	316	316
	Total assets	3,023	3,848	3,538	3,708	3,916
	Short-term debt	0	42	0	0	0
	Total liabilities	1,633	2,299	1,902	1,955	2,011
	Total equity	1,390	1,549	1,636	1,754	1,905
	Total liabilities & equity	3,023	3,848	3,538	3,708	3,916
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	0.3	4.1	0.6	5.2	5.3
	Recurrent EPS growth (%)	(7.3)	2.2	(8.0)	7.4	7.3
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	59.2	57.7	54.8	54.9	55.5
	Net profit margin (%)	42.2	41.1	38.0	38.7	39.5
	Dividend payout ratio (%)	76.9	75.8	81.5	75.9	70.7
	Capex/sales (%)	4.3	4.0	6.3	5.6	4.9
	Interest cover (x)	111	73	36	38	41

Source: Company data, RHB

Operating Data

Figure 1: FY23F (until Feb 2023) SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
4QFY21	84,093	-11%		62	1,356	-11%	
1QFY22	78,363	-7%		64	1,224	-10%	
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	44,118			39	1,131		

Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)
YTD-FY18	207,029		167	1,240	
YTD-FY19	170,926	-17%	167	1,024	-17%
YTD-FY20	189,098	11%	169	1,119	9%
YTD-FY21	217,245	15%	167	1,301	16%
YTD-FY22	205,399	-5%	168	1,223	-6%
YTD-FY23	182,188	-11%	166	1,098	-10%

Source: Company data, RHB

Figure 2: FY23F (till Feb 2023) DDAV data

Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
4QFY21	54,514,009	-10%		62	0.88	-10%	
1QFY22	61,046,575	12%		64	0.95	8%	
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	39,255,254			39	1.01		

Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)
YTD-FY18	130,872,811		167	0.78	
YTD-FY19	151,010,697	15%	167	0.90	15%
YTD-FY20	157,273,804	4%	169	0.93	3%
YTD-FY21	154,805,495	-2%	168	0.92	-1%
YTD-FY22	155,291,374	0%	168	0.92	0%
YTD-FY23	167,949,291	8%	166	1.01	9%

Source: Company data, RHB

Figure 3: Monthly securities market turnover



Source: Company data, RHB

Figure 4: Monthly SDAV



Source: Company data, RHB

Figure 5: Monthly derivatives trading volume



Source: Company data, RHB

Figure 6: Monthly DDAV



Source: Company data, RHB

Figure 7: Earnings revision

	Net earnings (SGDm)				EPS (SGD)				DPS (SGD)		
	Previous	Revised	Chg %		Previous	Revised	Chg %		Previous	Revised	Chg %
2022	451	451	0.0		0.41	0.41	0.0		0.32	0.32	0.0
2023F	433	420	(3.1)		0.40	0.39	(3.1)		0.32	0.32	0.0
2024F	465	451	(3.1)		0.43	0.42	(3.1)		0.32	0.32	0.0
2025F	499	484	(3.1)		0.46	0.45	(3.1)		0.32	0.32	0.0

Source: Company data, RHB

Figure 8: 1-year forward P/E



Source: Company data, Bloomberg, RHB

Figure 9: 1-year forward P/E with ROE



Source: Company data, Bloomberg, RHB

Recommendation Chart

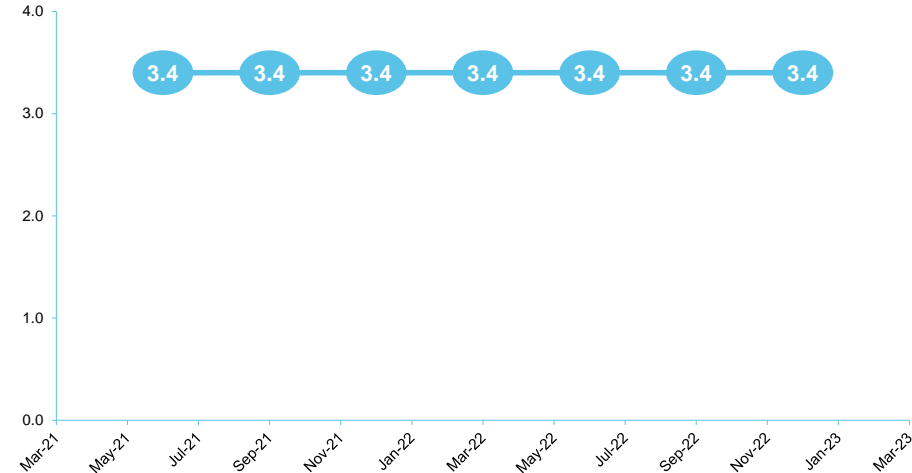


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-12-09	Neutral	10.3	9.5
2021-09-12	Neutral	11.1	10.2
2021-08-05	Neutral	11.1	11.3
2021-06-22	Buy	12.3	11.0
2021-01-24	Buy	11.6	10.1
2020-12-03	Buy	10.3	9.1
2020-08-26	Buy	9.5	8.6

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Not Rated:	Stock is not within regular research coverage

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