16 September 2022

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

YTD Performance Below Expectations

Target Price (Return):	SGD10.30 (+8%)
Price (Market Cap):	SGD9.55 (USD7,257m)
ESG score:	3.40 (out of 4)
Avg Daily Turnover (SGD/USD)	19.5m/14.0m

- **Keep NEUTRAL and SGD10.30 TP, 8% upside, c.3% yield.** The implied full fiscal year securities daily average value (SDAV) data and derivatives daily average volume (DDAV) based on July-August data was below our expectations. SDAV saw a broad pick-up (+23% YoY) in August, while DDAV was flat YoY. While we expect SGX's treasury income to benefit from rising interest rates, elevated operating costs and higher-than-historical average capex could keep growth muted in the near term. With FY23 P/E in line with the 22x historical average, valuations are unexciting.
- **August securities market turnover and derivatives turnover tracking below our estimates.** In August, the securities market turnover value climbed to SGD24.3bn (-7% YoY, +35% MoM), while SDAV came in at SGD1.1bn (-12% YoY, +23% MoM). The MoM rise in trading activity was aided by the end of the corporate earnings season and a strong month-end rebalancing. SGX estimates that institutional portfolio rotation led to SGD750m in net institutional inflows in August – the highest since January – and mainly into the financial and consumer sectors. Derivatives traded volume for the month was 20.4m contracts (+4% YoY, -1 MoM), while DDAV was at 921,170 contracts (-1% YoY, -10% MoM). The implied FY23 SDAV is c.20% below our estimates, while the implied FY23 DDAV is c.8% below. Nevertheless, our estimates are unchanged for now as it is still early in the fiscal year.
- **Elevated expenses and capex in the near term; valuation is reasonable.** During the FY22 results announcement, SGX guided for 7-9% growth in total expenses in FY23. It expects expenses to grow at mid-single digits during the medium term. FY23F capex, estimated at SGD70-75m, is higher than the average capex for the last five years of SGD50m. The share price weakness following SGX's FY22 results announcement has brought its FY23F P/E down to 21.7x, which is in line with its historical average since 2014. The stock offers a modest and below-market dividend yield of 3.3%. Our TP continues to be based on a target P/E of 22x FY23F EPS, which is in line with its historical average P/E. Our TP includes an ESG premium of 8% over its fair value of SGD9.50.
- **Risks.** Downside risks: i) Higher-than-guided operating costs for FY23F, and ii) slower ramp-up in revenue contributions from acquisitions. Upside risks: i) Higher-than-estimated SDAV from the potential pipeline of exchange traded funds, REITs, and special-purpose acquisition company listings, and ii) continued global macroeconomic uncertainties leading to higher derivatives volumes.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (SGDm)	1,056	1,099	1,171	1,235	1,299
Recurring net profit (SGDm)	445	451	470	500	536
Recurring net profit growth (%)	(5.8)	1.3	4.2	6.3	7.2
Recurring P/E (x)	22.95	22.63	21.71	20.42	19.05
P/B (x)	7.4	6.6	6.1	5.5	5.0
P/CF (x)	18.48	17.50	24.68	17.39	16.38
Dividend Yield (%)	3.4	3.4	3.4	3.4	3.4
EV/EBITDA (x)	14.24	13.96	13.19	12.32	11.29
Return on average equity (%)	33.9	30.8	29.2	28.3	27.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Analyst

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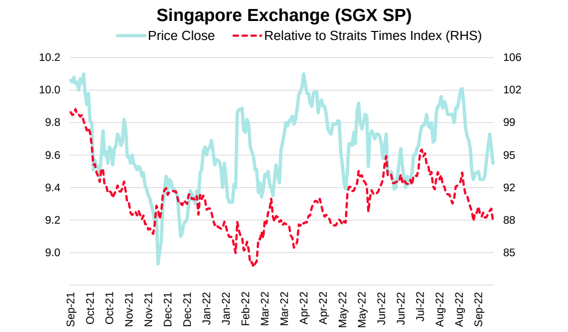
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.7	(3.4)	(1.9)	1.3	(5.1)
Relative	(1.9)	(3.7)	(7.1)	0.3	(11.9)
52-wk Price low/high (SGD)					8.93 – 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 programs.

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 4th in Singapore Governance & Transparency Index 2019.

Financial Exhibits

Asia
Singapore
Financial Services
Singapore Exchange
SGX SP
Neutral

Valuation basis

P/E, as its share price is sensitive to near-term earnings volatility.

Key drivers

Our FY22F earnings forecast is most sensitive to changes in:

i. Total securities trading volume;
ii. Total derivatives trading volume;
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;
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

Financial summary (SGD)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Recurring EPS	0.42	0.42	0.44	0.47	0.50
DPS	0.32	0.32	0.32	0.32	0.32
BVPS	1.29	1.44	1.57	1.73	1.92
Return on average equity (%)	33.9	30.8	29.2	28.3	27.5

Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Recurring P/E (x)	22.95	22.63	21.71	20.42	19.05
P/B (x)	7.4	6.6	6.1	5.5	5.0
FCF Yield (%)	5.0	5.3	3.3	5.1	5.5
Dividend Yield (%)	3.4	3.4	3.4	3.4	3.4
EV/EBITDA (x)	14.24	13.96	13.19	12.32	11.29
EV/EBIT (x)	16.77	16.47	15.55	14.48	13.18

Income statement (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover	1,056	1,099	1,171	1,235	1,299
Gross profit	1,056	1,099	1,171	1,235	1,299
EBITDA	625	634	667	700	743
Depreciation and amortisation	(95)	(97)	(101)	(105)	(106)
Operating profit	531	537	566	595	637
Net interest	13	9	4	5	7
Pre-tax profit	536	545	568	603	646
Taxation	(91)	(93)	(97)	(102)	(109)
Reported net profit	445	451	470	500	536
Recurring net profit	445	451	470	500	536

Cash flow (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Change in working capital	27	16	(143)	3	3
Cash flow from operations	553	584	414	587	623
Capex	(45)	(44)	(75)	(65)	(60)
Cash flow from investing activities	(198)	(550)	(57)	(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	998	1,183
Net change in cash	145	(75)	0	185	228
Ending balance cash	1,060	998	998	1,183	1,411

Balance sheet (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total cash and equivalents	1,101	1,092	1,092	1,278	1,505
Tangible fixed assets	285	251	250	236	214
Total investments	223	315	315	316	316
Total assets	3,023	3,848	3,638	3,863	4,125
Short-term debt	0	42	0	0	0
Total liabilities	1,633	2,299	1,952	2,010	2,068
Total equity	1,390	1,549	1,686	1,854	2,057
Total liabilities & equity	3,023	3,848	3,638	3,863	4,125

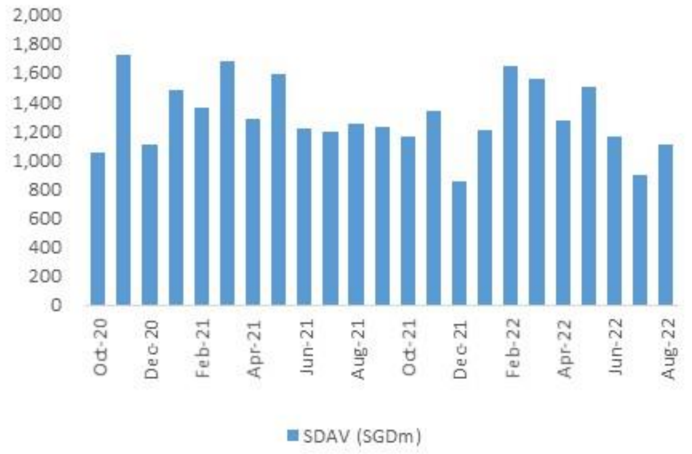
Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Revenue growth (%)	0.3	4.1	6.5	5.4	5.2
Recurrent EPS growth (%)	(5.8)	1.4	4.2	6.3	7.2
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
Operating EBITDA margin (%)	59.2	57.7	57.0	56.7	57.2
Net profit margin (%)	42.2	41.1	40.2	40.5	41.2
Dividend payout ratio (%)	76.9	75.8	72.8	68.4	63.8
Capex/sales (%)	4.3	4.0	6.4	5.3	4.6
Interest cover (x)	111	73	41	43	46

Source: Company data, RHB

Figure 1: Monthly securities market turnover value

Source: Company data, RHB

Figure 2: Monthly securities daily average value (SDAV)

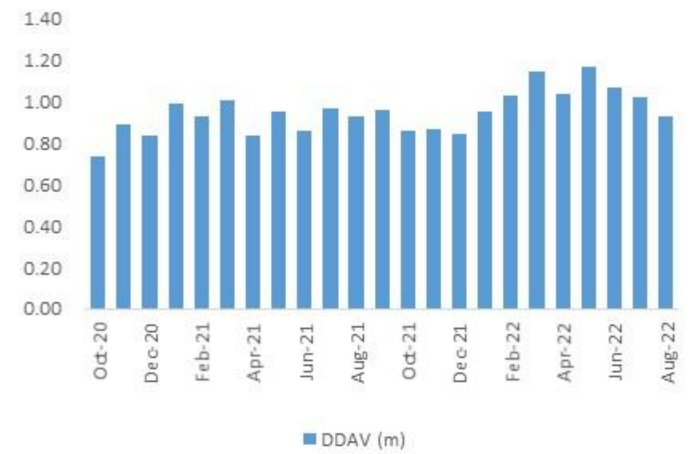


Source: Company data, RHB

Figure 3: Monthly derivatives traded volume

Source: Company data, RHB

Figure 4: Monthly derivatives daily average volume (DDAV)



Source: Company data, RHB

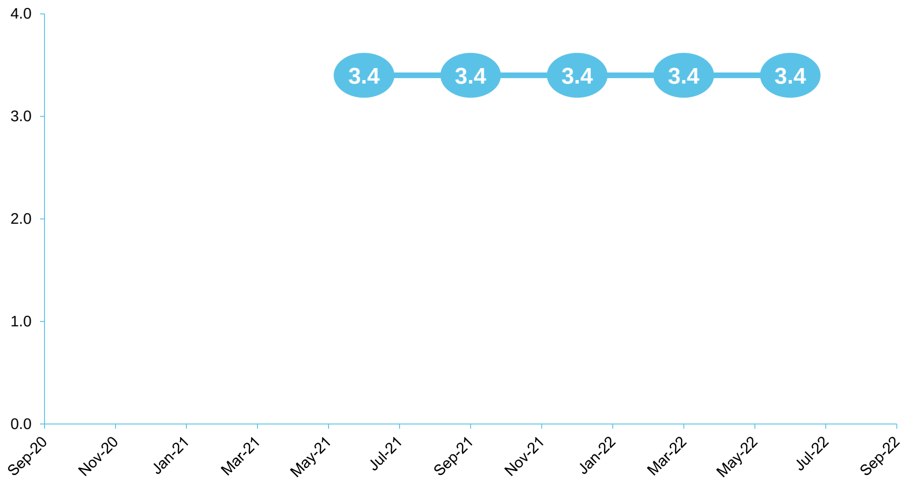
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-08-03	Buy	9.2	8.5
2020-06-29	Buy	9.2	8.1
2020-06-24	Buy	9.2	8.1

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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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