

22 May 2023

Financial Services | Exchanges

## Singapore Exchange (SGX SP)

**Neutral** (Maintained)

### April Trading Data Disappoints

Target Price (Return): SGD9.80 (5.4%)  
Price (Market Cap): SGD9.30 (USD7,385m)  
ESG score: 3.40 (out of 4)  
Avg Daily Turnover (SGD/USD) 15.7m/11.8m

- **Stay NEUTRAL and SGD9.80 TP, 5% upside.** Singapore Exchange's April market statistics came in below estimates. Both securities daily average value (SDAV) and derivatives daily average volume (DDAV) registered declines. Implied FY23F (Jun) SDAV and DDAV (based on data till April) are tracking 2% and 5% below our forecasts. We reiterate our view of a weak outlook for its cash equities business in the near term and maintain our below-Street estimates. SGX's 21x forward P/E is close to its historical average, which is a fair valuation level.
- **Securities volumes decline for four straight months.** The STI climbed 0.4% MoM in April, ending the month with a 1.3% total return and bringing total returns for 2023's first four months to 2.1%. SDAV did fall 23% YoY (-19% MoM) to SGD979m. For each month in 2023, the SDAV has now registered a YoY decline. The YTD securities market turnover value and SDAV for FY23 are tracking 14% and 13% below the numbers for the same period in FY22 (Figure 1). The implied FY23F SDAV, based on data through February, is 2.3% below our estimate. We believe SGX could continue to see weakness in its cash equities business. We maintain our FY23F SDAV estimate of SGD1,119m, which remains below consensus.
- **Total derivatives traded volumes in April** was 17.7m contracts (-15% YoY, -25% MoM) with DDAV amounting to 0.93m (-10% YoY, -9% MoM). SGX said the reduced trade in equities and FX could not be offset by strong gains in commodities activities. Commodity derivatives traded volumes rose 55% YoY, led by a 63% YoY increase in benchmark iron ore volumes, but total futures traded volumes on FX slid 13% YoY – the equities index futures traded volumes was 24% lower YoY while the SGX FTSE China A50 futures volumes fell 27% YoY. YTD derivatives traded volumes and DDAV for FY23 are tracking 3% and 5% above the numbers for the same period in FY22 (Figure 2). The implied FY23F DADV, based on data through April, is 4.7% below our estimate.
- **Lacks near-term catalysts, unexciting yields.** While we still see fixed income, FX, and commodities businesses as key long-term growth drivers, the near-term outlook for the cash equities business stays weak, especially amidst moderating expectations local banks' earnings. SGX's stock offers a dismal 3.4% forward dividend yield, ie well below the STI's 5%. Our FY23F-24F earnings are 6-7% below Street (Figure 8). We continue to value SGX by applying 21x P/E to its FY24F EPS. Our TP includes an 8% ESG premium to its SGD9.10 FV.
- **ESG framework update.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. Henceforth, we assign a 50% weightage to the E pillar, followed by 25% each to the S and G pillars. See our [2 May thematic research](#) for details.

#### Analyst

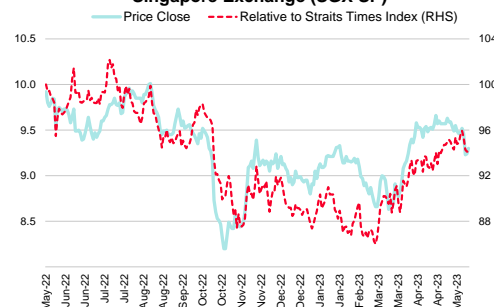
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.9	(2.2)	3.7	(1.0)	(3.8)
Relative	5.4	1.5	7.5	1.1	(4.2)
52-wk Price low/high (SGD)	8.20 – 10.0				

#### Singapore Exchange (SGX SP)



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 FY20 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 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	1,155	1,182	1,243
Recurring net profit (SGDm)	447	456	456	480	524
Recurring net profit growth (%)	(7.3)	2.1	(0.2)	5.2	9.2
Recurring P/E (x)	22.27	21.79	21.82	20.73	18.97
P/B (x)	7.2	6.4	6.5	5.9	5.3
P/CF (x)	18.00	17.04	26.14	18.01	17.00
Dividend Yield (%)	3.4	3.4	3.4	3.4	3.4
EV/EBITDA (x)	14.56	14.17	13.79	13.50	12.44
Return on average equity (%)	33.9	30.8	32.7	29.8	29.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
Singapore	Recurring EPS	0.42	0.43	0.43	0.45	0.49
Financial Services	DPS	0.32	0.32	0.32	0.32	0.32
<b>Singapore Exchange</b>	BVPS	1.29	1.44	1.44	1.57	1.74
SGX SP	Return on average equity (%)	33.9	30.8	32.7	29.8	29.6
Neutral						
	<b>Valuation metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Recurring P/E (x)	22.27	21.79	21.82	20.73	18.97
	P/B (x)	7.2	6.4	6.5	5.9	5.3
	FCF Yield (%)	5.1	5.4	3.3	4.9	5.3
	Dividend Yield (%)	3.4	3.4	3.4	3.4	3.4
	EV/EBITDA (x)	14.56	14.17	13.79	13.50	12.44
	EV/EBIT (x)	17.15	16.72	16.22	15.39	13.91
	<b>Income statement (SGDm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Total turnover	1,056	1,099	1,155	1,182	1,243
	Gross profit	1,056	1,099	1,155	1,182	1,243
	EBITDA	625	634	655	658	698
	Depreciation and amortisation	(95)	(97)	(98)	(81)	(74)
	Operating profit	531	537	557	577	624
	Net interest	13	9	65	11	13
	Pre-tax profit	536	545	607	580	633
	Taxation	(91)	(93)	(103)	(100)	(108)
	Reported net profit	445	451	503	480	524
	Recurring net profit	447	456	456	480	524
	<b>Cash flow (SGDm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Change in working capital	27	16	(135)	2	3
	Cash flow from operations	553	584	380	552	585
	Capex	(45)	(44)	(49)	(60)	(60)
	Cash flow from investing activities	(198)	(550)	(50)	(41)	(39)
	Dividends paid	(342)	(342)	(342)	(342)	(342)
	Cash flow from financing activities	(210)	(109)	(416)	(350)	(350)
	Cash at beginning of period	907	1,060	998	921	1,082
	Net change in cash	145	(75)	(85)	161	196
	Ending balance cash	1,060	998	921	1,082	1,278
	<b>Balance sheet (SGDm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Total cash and equivalents	1,101	1,092	1,035	1,197	1,392
	Tangible fixed assets	285	251	210	189	175
	Total investments	223	609	551	551	551
	Total assets	3,023	3,848	3,412	3,581	3,806
	Short-term debt	0	42	0	0	0
	Total long-term debt	468	694	677	677	677
	Total liabilities	1,633	2,299	1,867	1,898	1,941
	Total equity	1,390	1,549	1,545	1,683	1,865
	Total liabilities & equity	3,023	3,848	3,412	3,581	3,806
	<b>Key metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Revenue growth (%)	0.3	4.1	5.1	2.3	5.2
	Recurrent EPS growth (%)	(7.3)	2.2	(0.1)	5.3	9.2
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	59.2	57.7	56.7	55.7	56.2
	Net profit margin (%)	42.2	41.1	43.6	40.6	42.2
	Dividend payout ratio (%)	76.9	75.8	67.9	71.3	65.3
	Capex/sales (%)	4.3	4.0	4.2	5.1	4.8
	Interest cover (x)	111	73	66	74	80

**Valuation basis**

We use PE valuation as share price is sensitive to near-term earnings volatility.

**Key drivers**

Our FY22F earnings forecast is most sensitive to changes in:

- Total securities trading volumes;
- Total derivatives trading volumes;
- Effective trading and clearing rates.

**Key risks**

Key downside risks to our call include:

- Lower-than-expected securities market turnovers;
- Lower-than-expected trading in derivative contracts;
- Lower-than-expected clearing and trading rates.

The converse represents the upside risks.

**Company Profile**

Singapore Exchange is a multi-asset exchange that operates equity, fixed income and derivatives markets that provides listing, trading, clearing, settlement, depository, and data services

Source: Company data, RHB

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Figure 1: FY23F (until April) 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	72,096	3%	-21%	62	1,163	5%	-21%
4QFY23	18,609			19	979		
Period	Total turnover (SGDm)		YoY (%)	Trading days	SDAV (SGDm)		YoY (%)
YTD-FY18	261,467			209	1,251		
YTD-FY19	214,450		-18%	209	1,026		-18%
YTD-FY20	266,974		24%	212	1,259		23%
YTD-FY21	282,984		6%	211	1,341		6%
YTD-FY22	266,565		-6%	211	1,263		-6%
YTD-FY23	228,775		-14%	208	1,100		-13%

Source: Company data, RHB

Figure 2: FY23F (until April) 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	62,727,026	-4%	-3%	62	1.01	-3%	-3%
4QFY23	17,708,085			19	0.93		
Period	Volume (contracts)		YoY (%)	Trading days	DDAV (m)		YoY (%)
YTD-FY18	163,471,700			209	0.78		
YTD-FY19	195,183,739		19%	209	0.93		19%
YTD-FY20	206,866,771		6%	212	0.98		4%
YTD-FY21	195,484,352		-6%	212	0.92		-6%
YTD-FY22	202,432,053		4%	211	0.96		4%
YTD-FY23	209,129,148		3%	208	1.01		5%

Source: Company data, RHB

Figure 3: Monthly securities market turnover (until April)



Source: Company data, RHB

Figure 4: Monthly SDAV (until April)

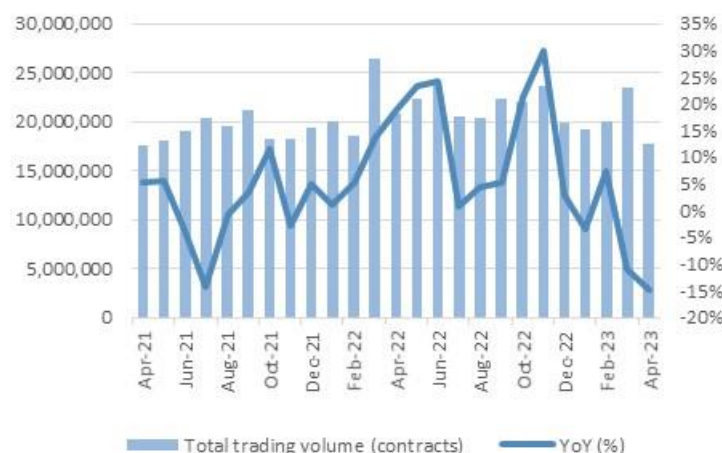


Source: Company data, RHB

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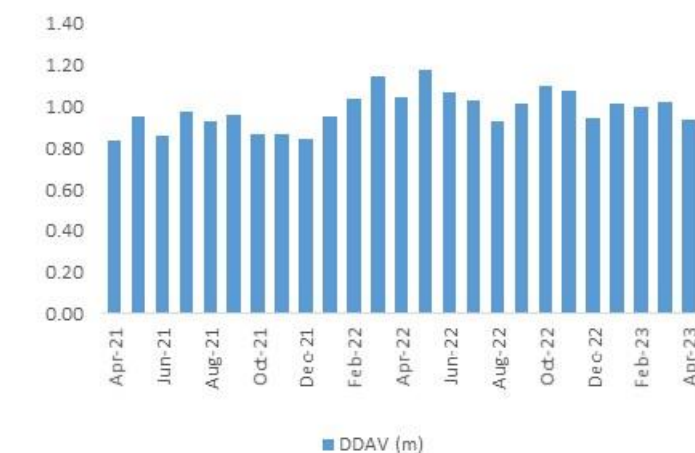
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Figure 5: Monthly derivatives trading volumes (until April)



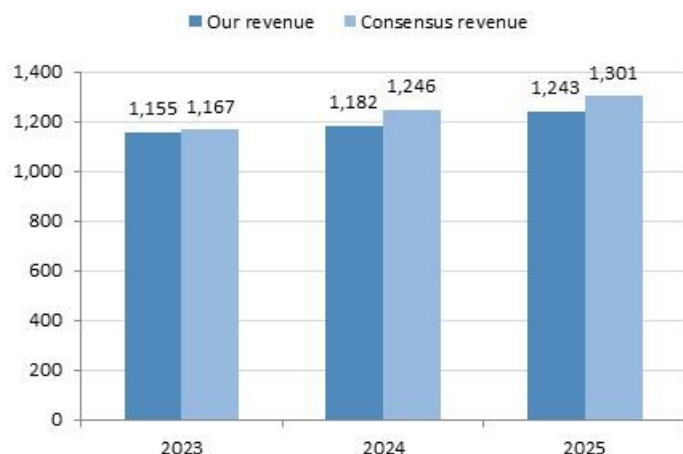
Source: Company data, RHB

Figure 6: Monthly DDAV (until April)



Source: Company data, RHB

Figure 7: RHB revenue estimates vs consensus (SGDm)



Source: Bloomberg, RHB

Figure 8: RHB profit estimates vs Street (SGDm)



Source: Bloomberg, RHB

Figure 9: SGX's 1-year forward P/E



Note: Prices as at 19 May 2023

Source: Company data, Bloomberg, RHB

Figure 10: SGX's 1-year forward P/E with ROE



Note: Prices as at 19 May 2023

Source: Company data, Bloomberg, RHB

Recommendation Chart

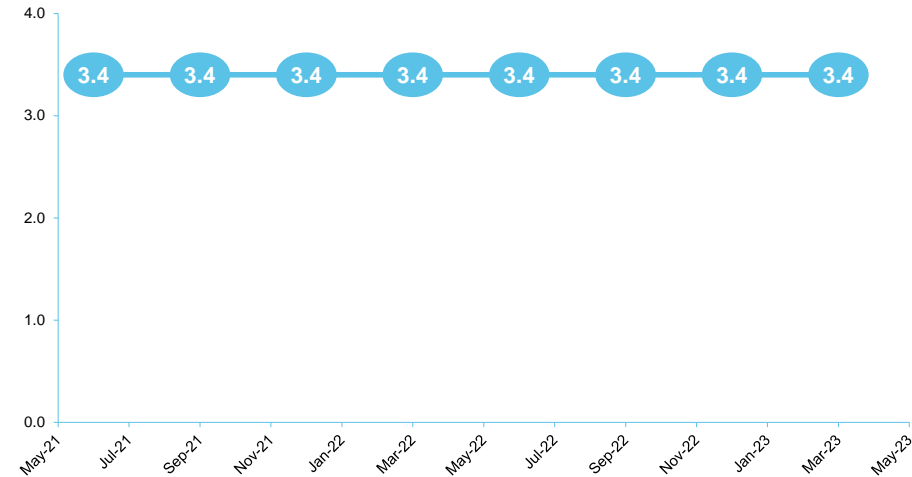


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB



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