

23 November 2022

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Strong Derivatives Volume In October

Target Price (Return): SGD9.00 (-1%)
 Price (Market Cap): SGD9.11 (USD7,044m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (SGD/USD) 22.5m/16.1m

- **Keep NEUTRAL and SGD9.00 TP, 1% downside.** The implied FY23F (Jun) securities daily average value (SDAV) based on the first four months of data is below our forecast. Thanks to a strong rise in derivatives volume across multiple asset classes, the implied FY23F derivatives daily average volume (DDAV) is tracking our forecast. There will be a downside risk to our estimate, if the ongoing softening trend in SDAV continues. After the recent rebound in Singapore Exchange's share price, the stock looks fairly priced, amidst a muted earnings outlook.

- **YTD-FY23F securities market data is below our estimate.** In October, the total securities market turnover value was SGD23.1bn (-5% YoY, -10% MoM), while SDAV stood at SGD1.15bn (unchanged YoY, -1% MoM). An uncertain forecast for growth, trade, inflation, rates, and earnings throughout the month characterised Singapore's stock market activity in October. The industrial, telecommunications, technology, and energy sectors led net fund inflows, while the REIT sector was mostly responsible for net outflows. The implied FY23F SDAV, based on first four months of data for FY23, is 7% below our estimate. We leave our forecast unchanged for now.

- **Strong growth in derivatives volume, in line with our expectations.** Derivatives volume across multiple asset classes reached new highs amid increased trading activity by global institutions, as hopes that central banks will slow their interest-rate hike cycles offset concerns about China's economic outlook. DDAV increased to 1.1m contracts in October (+23% YoY, +8% MoM). Total derivatives traded volume was up 21% YoY but down 1% MoM to c.22m contracts. The implied FY23F DDAV, based on the first four months of data for FY23, is in line with our estimate.

- **P/E valuation has reverted to mean after recent share price jump.** SGX's share price has increased 11% in the last one month and has outperformed the STI by c.2%. This has brought its forward P/E to 22.2x, which is in line with its historical 1-year forward P/E of 22.1x. Going forward, the expectation of a muted SDAV outlook could pose a downside risk to our and consensus estimates. This could keep investors at bay for now. Moreover, the stock offers a below-market dividend yield of 3.5%.

- **Our TP includes an ESG premium.** Our TP is based on a target P/E of 21x on FY23F EPS, which is a tad below its historical average P/E. This is reasonable, given a muted near-term earnings outlook. Our TP includes an ESG premium of 8% over its fair value of SGD8.30.

Analyst

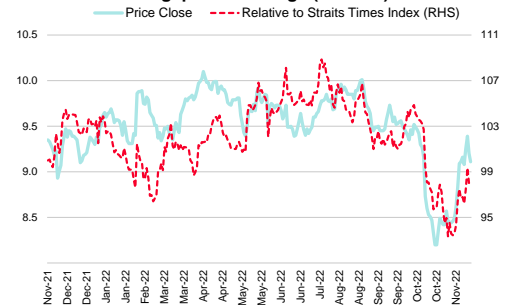
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.1)	11.1	(8.1)	(7.7)	(2.6)
Relative	(6.2)	1.6	(7.7)	(8.0)	(3.0)
52-wk Price low/high (SGD)	8.20 – 10.1				

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 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 4th 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	1,120	1,180	1,242
Recurring net profit (SGDm)	445	451	428	455	488
Recurring net profit growth (%)	(5.8)	1.3	(5.3)	6.4	7.3
Recurring P/E (x)	21.89	21.58	22.77	21.40	19.95
P/B (x)	7.0	6.3	5.9	5.5	5.1
P/CF (x)	17.63	16.70	26.43	17.97	16.93
Dividend Yield (%)	3.5	3.5	3.5	3.5	3.5
EV/EBITDA (x)	13.48	13.22	13.60	12.76	11.75
Return on average equity (%)	33.9	30.8	26.9	26.8	26.6
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	0.42	0.40	0.43	0.46
Financial Services	DPS	0.32	0.32	0.32	0.32	0.32
Singapore Exchange	BVPS	1.29	1.44	1.53	1.65	1.79
SGX SP	Return on average equity (%)	33.9	30.8	26.9	26.8	26.6
Neutral						
	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Valuation basis	Recurring P/E (x)	21.89	21.58	22.77	21.40	19.95
We use PE valuation as share price is sensitive to near-term earnings volatility.	P/B (x)	7.0	6.3	5.9	5.5	5.1
	FCF Yield (%)	5.2	5.5	3.0	4.9	5.3
	Dividend Yield (%)	3.5	3.5	3.5	3.5	3.5
	EV/EBITDA (x)	13.48	13.22	13.60	12.76	11.75
	EV/EBIT (x)	15.88	15.60	16.27	15.23	13.91
Key drivers	Income statement (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Our FY23F earnings are most sensitive to changes in:	Total turnover	1,056	1,099	1,120	1,180	1,242
i. Total securities trading volume;	Gross profit	1,056	1,099	1,120	1,180	1,242
ii. Total derivatives trading volume; and	EBITDA	625	634	616	646	686
iii. Effective trading and clearing rate.	Depreciation and amortisation	(95)	(97)	(101)	(105)	(106)
	Operating profit	531	537	515	541	580
Key risks	Net interest	13	9	4	5	7
Key downside risks to our call include:	Pre-tax profit	536	545	516	548	588
i. Lower-than-expected securities market turnover;	Taxation	(91)	(93)	(88)	(93)	(100)
ii. Lower-than-expected trading in derivative contracts; and	Reported net profit	445	451	428	455	488
iii. Lower-than-expected clearing and trading rate.	Recurring net profit	445	451	428	455	488
The converse represents upside risks.						
Company Profile	Cash flow (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
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	27	16	(146)	3	3
	Cash flow from operations	553	584	368	542	575
	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	953	1,093
	Net change in cash	145	(75)	(45)	140	180
	Ending balance cash	1,060	998	953	1,093	1,273
	Balance sheet (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	1,101	1,092	1,047	1,187	1,367
	Tangible fixed assets	285	251	250	236	214
	Total investments	223	315	315	316	316
	Total assets	3,023	3,848	3,556	3,734	3,945
	Short-term debt	0	42	0	0	0
	Total liabilities	1,633	2,299	1,912	1,968	2,024
	Total equity	1,390	1,549	1,644	1,766	1,921
	Total liabilities & equity	3,023	3,848	3,556	3,734	3,945
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	0.3	4.1	1.9	5.4	5.2
	Recurrent EPS growth (%)	(5.8)	1.4	(5.2)	6.4	7.3
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	59.2	57.7	55.0	54.7	55.2
	Net profit margin (%)	42.2	41.1	38.2	38.6	39.3
	Dividend payout ratio (%)	76.9	75.8	80.0	75.2	70.1
	Capex/sales (%)	4.3	4.0	6.7	5.5	4.8
	Interest cover (x)	111	73	37	39	41

Source: Company data, RHB

Operating Data

Figure 1: FY23 (till Oct 2022) SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
3QFY21	94,229	12.4%		62	1,520	17.8%	
4QFY21	84,093	-10.8%		62	1,356	-10.8%	
1QFY22	78,363	-6.8%		64	1,224	-9.7%	
2QFY22	72,081	-8.0%	-14.0%	65	1,109	-9.4%	-14.0%
3QFY22	90,695	25.8%	-3.8%	62	1,463	31.9%	-3.8%
4QFY22	79,644	-12.2%	-5.3%	61	1,306	-10.7%	-3.7%
1QFY23	68,093	-14.5%	-13.1%	64	1,064	-18.5%	-13.1%
2QFY23 QTD	23,090	na	na	20	1,155	na	na

Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)
YTD-FY18	97,194		84	1,157	
YTD-FY19	91,828	-5.5%	86	1,068	-7.7%
YTD-FY20	89,377	-2.7%	86	1,039	-2.7%
YTD-FY21	101,140	13.2%	85	1,190	14.5%
YTD-FY22	102,689	1.5%	85	1,208	1.5%
YTD-FY23	91,183	-11.2%	84	1,086	-10.1%

Source: Company data, RHB

Figure 2: FY23 (till Oct 2022) DDAV data

Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
3QFY21	60,633,351	13%		62	0.98	19%	
4QFY21	54,514,009	-10%		62	0.88	-10%	
1QFY22	61,046,575	12%		64	0.95	8%	
2QFY22	55,687,092	-9%	4.2%	65	0.86	-10%	4.2%
3QFY22	64,888,445	17%	7.0%	62	1.05	22%	7.0%
4QFY22	66,616,829	3%	22.2%	61	1.09	4%	24.2%
1QFY23	63,186,909	-5%	3.5%	64	0.99	-10%	3.5%
2QFY23 QTD	21,960,371	na	na	20	1.10	na	na

Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)
YTD-FY18	61,055,389		84	0.73	
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%

Source: Company data, RHB

Figure 3: Monthly securities market turnover



Source: Company data, RHB

Figure 4: Monthly derivatives trading volume



Source: Company data, RHB

Sensitivity Analysis

Figure 5: FY23F earnings sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	0.85	0.90	0.95	1.02	1.05	1.10	1.15
1,030	329	349	369	398	409	429	449
1,080	339	359	379	408	419	439	459
1,130	350	370	390	418	429	449	469
1,176	359	379	399	428	439	459	479
1,230	370	390	410	439	450	470	490
1,280	381	401	421	449	460	480	500
1,330	391	411	431	459	471	491	511

Source: Bloomberg, RHB

Figure 6: TP sensitivity to SADV and ADC

SDAV (SGDm)	DDAV (m)						
	0.85	0.90	0.95	1.02	1.05	1.10	1.15
1,030	6.90	7.30	7.70	8.30	8.50	9.00	9.40
1,080	7.10	7.60	7.90	8.50	8.70	9.20	9.60
1,130	7.30	7.80	8.10	8.70	9.00	9.40	9.80
1,176	7.60	7.90	8.30	9.00	9.20	9.60	10.00
1,230	7.80	8.20	8.50	9.20	9.40	9.80	10.30
1,280	8.00	8.40	8.70	9.40	9.60	10.00	10.50
1,330	8.20	8.60	9.00	9.60	9.80	10.30	10.70

Source: Bloomberg, RHB

Valuations

Figure 7: SGX's 12-month forward P/E



Source: Bloomberg, RHB

Figure 8: SGX's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart

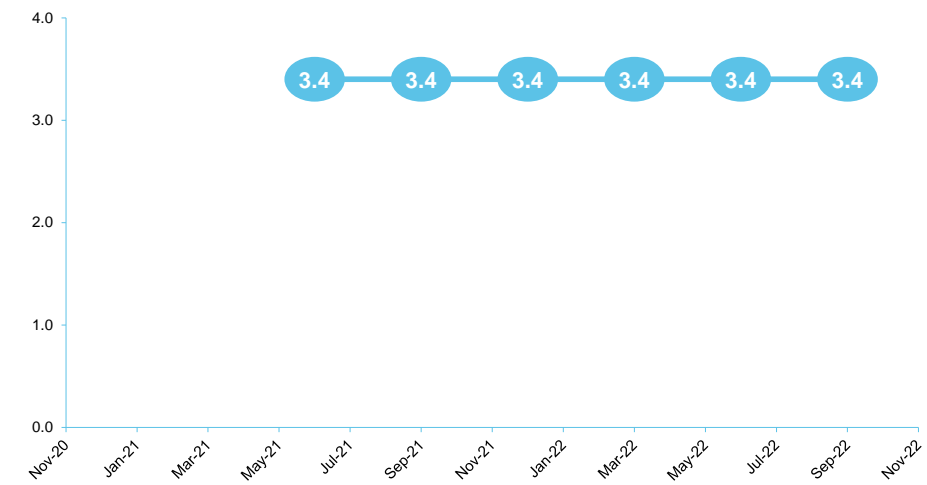


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-12-09	Neutral	9.8	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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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