

19 August 2022

Financial Services | Exchanges

Singapore Exchange (SGX SP)

In-line FY22

Neutral (Maintained)

Target Price (Return): SGD10.30 (+3%)
 Price (Market Cap): SGD10.00 (USD7,737m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (SGD/USD) 20.5m/14.8m

- **Maintain NEUTRAL, with new SGD10.30 TP from SGD10.70, 3% upside.** Singapore Exchange's FY22 (Jun) results did not yield any major surprises. Management is guiding for a 7-9% increase in expenses and higher-than-normal capex for FY23F. Our expectation is that while derivatives daily average volume (DDAV) will move higher, FY23F securities daily average value (SDAV) will remain muted. We lower FY23F-24F earnings by 3-4%. A modest growth outlook, below market dividend yield, and forward P/E being higher than the historical average support our current call.
- **FY22 results were in line with expectations.** SGX reported its highest revenue since its listing – SGD1,099m (+4% YoY) – accounting for 99% of our estimate. Revenue growth was negatively impacted by lower yields for treasury income as well as the decline in total traded value and average clearing fee for cash equity business. PATMI grew 1% YoY to SGD451m (98% of our estimate). As per SGX, recurring PATMI lifted by 2% YoY to SGD456m. DPS for FY22 remained unchanged at 32 SG cents.
- **Guiding for elevated expenses and higher capex.** SGX is guiding for 7-9% growth in total expenses for FY23, of which 2% growth will come from the full year impact of the MaxxTrader acquisition. Much of the other increase in costs will come from higher expenses from the buildout of its OTC FX business and higher staff costs from salary increments. SGX expects expenses to grow at mid-single digit during the medium term. FY23F capex is estimated at SGD70-75m, to be used for investments in FX franchise, enhancements to its platform and system architecture, and improvements to office efficiency. The average capex for last five years was SGD50m.
- **Moderating FY23-FY24 estimates; valuation is reasonable.** Accounting for higher operating costs and a likely muted SDAV in FY23F, we lower FY23F-FY24F earnings by 3-4% each. SGX's FY23F P/E of 22.7x is now slightly above its historical average of 21.9x. With no visibility of a higher dividend payout, the stock offers a modest yield of 3.2% as compared to Singapore's market yield of more than 4%. 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. We view our target P/E as reasonable – given the expectation of a modest (mid-single digit) growth in profit. 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.

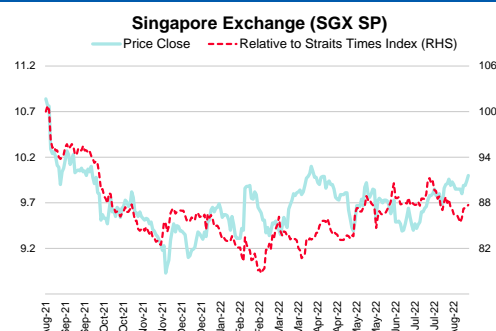
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.5	2.2	2.7	4.0	(7.8)
Relative	2.7	(2.7)	1.2	8.5	(12.3)
52-wk Price low/high (SGD)				8.93	– 10.8



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	1,171	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)	24.03	23.69	22.74	21.38	19.95
P/B (x)	7.7	6.9	6.4	5.8	5.2
P/CF (x)	19.35	18.33	25.85	18.21	17.15
Dividend Yield (%)	3.2	3.2	3.2	3.2	3.2
EV/EBITDA (x)	15.01	14.72	13.91	13.00	11.94
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

Financial Exhibits

Asia	Financial summary (SGD)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Singapore	Recurring EPS	0.42	0.42	0.44	0.47	0.50
Financial Services	DPS	0.32	0.32	0.32	0.32	0.32
Singapore Exchange	BVPS	1.29	1.44	1.57	1.73	1.92
SGX SP	Return on average equity (%)	33.9	30.8	29.2	28.3	27.5
Neutral						
	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Recurring P/E (x)	24.03	23.69	22.74	21.38	19.95
	P/B (x)	7.7	6.9	6.4	5.8	5.2
	FCF Yield (%)	4.7	5.0	3.2	4.9	5.3
	Dividend Yield (%)	3.2	3.2	3.2	3.2	3.2
	EV/EBITDA (x)	15.01	14.72	13.91	13.00	11.94
	EV/EBIT (x)	17.68	17.37	16.40	15.29	13.93
	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

Results At a Glance

Figure 1: FY22 results summary

FYE Jun (SGDm)	1HFY21	2HFY21	1HFY22	2HFY22	HoH(%)	YoY(%)	2021	2022	YoY(%)	% of forecast
Operating revenue	478.5	535.1	521.6	577.4	10.7	7.9	1,056.0	1,099.0	4.1	99.1
Fixed income, FX, commodities	84.8	112.5	114.0	138.8	21.8	23.3	211.8	252.7	19.4	105.8
Equity	341.4	350.2	334.5	364.4	8.9	4.0	701.1	698.9	(0.3)	97.5
Data, connectivity, others	52.4	72.4	73.1	74.3	1.6	2.7	143.1	147.4	3.0	95.7
Operating expenses	(224.4)	(277.0)	(262.1)	(299.5)	14.3	8.1	(525.2)	(561.6)	6.9	99.1
Operating profit	254.1	258.2	259.5	277.9	7.1	7.7	530.7	537.4	1.3	99.0
EBITDA	297.9	303.7	306.0	328.1	7.2	8.0	625.2	634.1	1.4	99.1
Other gains/(losses)	6.5	(5.6)	9.6	8.0	(16.8)	(243.5)	10.0	17.7	75.9	192.6
PBT	260.6	252.6	269.1	286.0	6.3	13.2	540.8	555.1	2.7	100.5
Share of associates/JVs	(1.2)	(3.7)	(6.0)	(4.5)	(24.3)	22.1	(4.3)	(10.5)	145.8	na
Tax	(46.1)	(43.0)	(44.2)	(48.5)	9.9	12.8	(90.7)	(92.7)	2.2	98.7
PAT	213.3	205.8	219.0	232.9	6.3	13.2	445.8	451.9	1.4	98.3
Minority interest	0.0	(0.2)	(0.3)	(0.2)	(27.7)	5.0	(0.4)	(0.5)	35.6	109.4
PATAMI	213.3	205.6	218.7	232.7	6.4	13.2	445.4	451.4	1.3	98.3

Source: Company data, RHB

Sensitivity Analysis

Figure 2: FY23F profit sensitivity to estimated SDAV and DDAV

		DDAV (m)						
		0.95	1.00	1.05	1.06	1.15	1.20	1.25
SDAV (SGDm)	1,140	394	414	434	439	474	494	514
	1,190	404	424	445	449	485	505	525
	1,240	415	435	455	460	495	515	535
	1,291	425	445	465	470	505	526	546
	1,340	435	455	475	480	516	536	556
	1,390	446	466	486	491	526	546	566
	1,440	456	476	496	501	536	556	576

Source: Company data, RHB

Figure 3: TP sensitivity to FY23 SADV and DDAV estimates

		DDAV (m)						
		0.95	1.00	1.05	1.06	1.15	1.20	1.25
SDAV (SGDm)	1,140	8.60	9.10	9.50	9.60	10.40	10.80	11.20
	1,190	8.90	9.30	9.70	9.80	10.60	11.00	11.40
	1,240	9.10	9.50	9.90	10.00	10.80	11.20	11.70
	1,291	9.30	9.70	10.20	10.30	11.00	11.60	12.00
	1,340	9.50	9.90	10.40	10.50	11.30	11.80	12.20
	1,390	9.70	10.20	10.70	10.70	11.60	12.00	12.40
	1,440	9.90	10.50	10.90	11.00	11.80	12.20	12.60

Source: Company data, RHB

Recommendation Chart

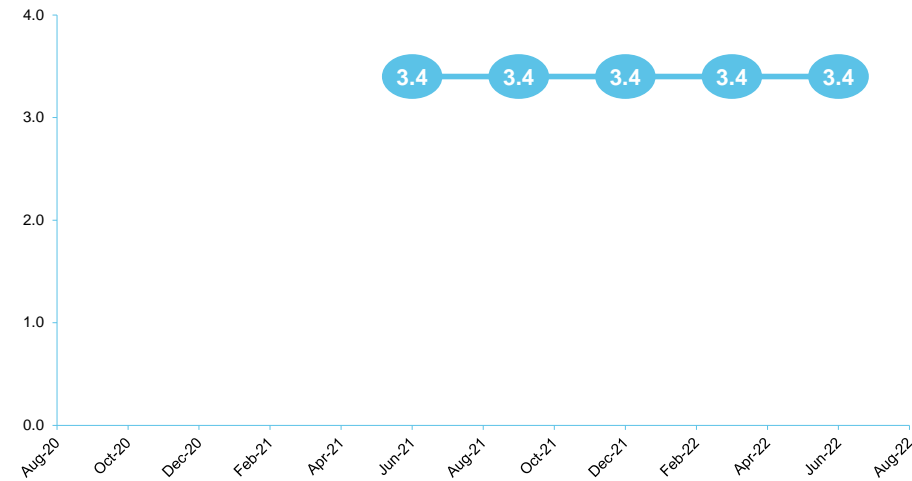


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-05-27	Neutral	8.6	8.8

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Not Rated:	Stock is not within regular research coverage

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