

14 July 2023

Financial Services | Exchanges

## Singapore Exchange (SGX SP)

**Neutral** (Maintained)

### Mark To Market For FY23 Operating Statistics

Target Price (Return):	SGD9.90 (+5%)
Price (Market Cap):	SGD9.39 (USD7,501m)
ESG score:	3.40 (out of 4)
Avg Daily Turnover (SGD/USD)	13.9m/10.4m

• **NEUTRAL, new SGD9.90 TP from SGD9.80, 5% upside with c.3% FY24 (Jun) yield.** FY23 market statistics disappointed, as securities daily average value (SDAV) and derivatives daily average volume (DDAV) were 2% and 4% below our forecasts – both declined QoQ and YoY in 4QFY23. We update our financial model for the reported statistics and trim FY23-25F earnings by 3-4%. We still maintain our below-consensus forecasts, and reiterate our weak outlook for Singapore Exchange's cash equities business. Its forward P/E is at the historical mean, ie fairly valued.

• **Securities volume fell YoY for six consecutive months, but SDAV improved in June.** SDAV climbed 14% MoM in June to SGD1.2bn, up 2% YoY, while total securities market turnover value was 3% higher MoM at SGD23.7bn. The Straits Times Index (STI) advanced 1.5% in June. In Jan-Jun 2023, reinvested dividends boosted the STI's total return to 1.2%. For FY23, both securities turnover and SDAV disappointed, with a YoY declines of 14% and 13%. Pasture Holdings, a pharmaceutical company, joined the Catalyst board in June. SGX-listed companies raised SGD289.8m of secondary equity funds in June. From January to June as well, secondary fundraising totalled SGD2.4bn (+91% YoY).

• **DDAV improved MoM in June.** Total derivatives traded volume across multiple asset classes climbed 4% MoM (-9% YoY) in June to 21.3m contracts, the highest in three months. The DDAV also jumped 15% MoM (flat YoY). For FY23, derivatives volume and DDAV increased by 1% and 2%. On SGX Equity Derivatives, equity index futures traded volume gained 2% MoM to 13.6m contracts. As part of efforts to mobilise capital towards the climate transition, SGX Equity Derivatives in June launched five futures contracts based on the MSCI Climate Action Indexes. FX futures traded volume increased 12% MoM in June to 3.3m contracts. Commodity derivatives traded volume rose 35% YoY in June to 3.9m contracts, with iron ore volume up 36% YoY.

• **Share price has outperformed the STI, but company lacks near-term catalysts.** Amidst the relatively defensive nature of its earnings, YTD, SGX's share price has outperformed the STI by 7%. However, this brings its forward P/E in line with its historical P/E mean of c.22x. While SGX's non-cash equity businesses (ie the fixed income, currencies & commodities and equity derivatives business) are key long-term growth drivers, we continue to maintain our below-Street FY24F earnings for now. SGX's stock offers a dismal 3.4% forward dividend yield. We value the stock by applying a 22x P/E on its FY24F EPS. Our TP includes an 8% ESG premium to its SGD9.20 FV, as SGX's ESG score is four notches above the country median.

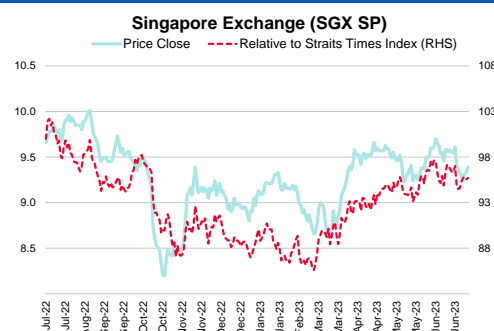
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	(2.1)	(1.4)	2.8	(2.6)
Relative	7.2	(1.4)	2.0	5.6	(3.5)
52-wk Price low/high (SGD)				8.20 – 10.0	



Source: Bloomberg

#### Overall ESG Score: 3.40 (out of 4)

##### E: EXCELLENT

SGX is a component of the Bloomberg ESG Data and MSCI World ESG Leader indices. In FY20, it bought 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 supplier that are committed to zero deforestation.

##### S: GOOD

Its SGD5m SGX Care Package in Mar 2020 to provided support and relief during the COVID-19 pandemic. Part of the funds were used to support Singapore-listed companies, eg grants for qualifying issuers to help them facilitate virtual AGMs by harnessing technology and defraying costs. SGD1.5m was also donated to support 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 was ranked fourth in the 2019 Singapore Governance & Transparency Index.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (SGDm)	1,056	1,099	1,135	1,162	1,223
Recurring net profit (SGDm)	447	456	440	463	508
Recurring net profit growth (%)	(7.3)	2.1	(3.7)	5.4	9.6
Recurring P/E (x)	22.49	22.00	22.84	21.67	19.77
P/B (x)	7.3	6.5	6.6	6.1	5.5
P/CF (x)	18.17	17.21	27.72	18.74	17.65
Dividend Yield (%)	3.4	3.4	3.4	3.4	3.4
EV/EBITDA (x)	14.71	14.32	14.40	14.12	13.01
Return on average equity (%)	33.9	30.8	31.8	29.2	29.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

## 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	0.41	0.43	0.48
Financial Services	DPS	0.32	0.32	0.32	0.32	0.32
<b>Singapore Exchange</b>	BVPS	1.29	1.44	1.42	1.54	1.69
SGX SP	Return on average equity (%)	33.9	30.8	31.8	29.2	29.4
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>
<b>Valuation basis</b>	Recurring P/E (x)	22.49	22.00	22.84	21.67	19.77
P/E, as the share price is sensitive to near-term earnings volatility.	P/B (x)	7.3	6.5	6.6	6.1	5.5
	FCF Yield (%)	5.1	5.4	3.1	4.7	5.1
	Dividend Yield (%)	3.4	3.4	3.4	3.4	3.4
<b>Key drivers</b>	EV/EBITDA (x)	14.71	14.32	14.40	14.12	13.01
Our FY22F earnings are most sensitive to changes in:	EV/EBIT (x)	17.33	16.90	17.04	16.17	14.61
i. Total securities trading volume;						
ii. Total derivatives trading volume;						
iii. Effective trading and clearing rates.						
	<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>
<b>Key risks</b>	Total turnover	1,056	1,099	1,135	1,162	1,223
Key downside risks to our call include:	Gross profit	1,056	1,099	1,135	1,162	1,223
i. Lower-than-expected securities market turnover;	EBITDA	625	634	635	638	678
ii. Lower-than-expected trading in derivative contracts;	Depreciation and amortisation	(95)	(97)	(98)	(81)	(74)
iii. Lower-than-expected clearing and trading rate.	Operating profit	531	537	537	557	604
	Net interest	13	9	65	11	13
The converse represents upside risks.	Pre-tax profit	536	545	587	560	613
	Taxation	(91)	(93)	(99)	(97)	(105)
	Reported net profit	445	451	487	463	508
	Recurring net profit	447	456	440	463	508
<b>Company Profile</b>						
Singapore Exchange is a multi-asset exchange that operates equity, fixed income and derivatives markets. It provides listing, trading, clearing, settlement, depository and data services	<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	(137)	2	3
	Cash flow from operations	553	584	362	536	569
	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	903	1,048
	Net change in cash	145	(75)	(104)	145	179
	Ending balance cash	1,060	998	903	1,048	1,227
	<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	1,017	1,162	1,342
	Tangible fixed assets	285	251	210	189	175
	Total investments	223	609	551	551	551
	Total assets	3,023	3,848	3,366	3,519	3,728
	Short-term debt	0	42	0	0	0
	Total long-term debt	468	694	677	677	677
	Total liabilities	1,633	2,299	1,838	1,869	1,911
	Total equity	1,390	1,549	1,529	1,650	1,816
	Total liabilities & equity	3,023	3,848	3,366	3,519	3,728
	<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	3.3	2.3	5.3
	Recurrent EPS growth (%)	(7.3)	2.2	(3.6)	5.4	9.6
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	59.2	57.7	56.0	54.9	55.5
	Net profit margin (%)	42.2	41.1	42.9	39.9	41.5
	Dividend payout ratio (%)	76.9	75.8	70.2	73.8	67.4
	Capex/sales (%)	4.3	4.0	4.3	5.2	4.9
	Interest cover (x)	111	73	63	72	78

Source: Company data, RHB

Figure 1: FY23F (until May) 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	65,290	-9%	-18%	61	1,070	-8%	-18%
Period	Total turnover (SGDm)		YoY (%)	Trading days	SDAV (SGDm)		YoY (%)
FY18	313,950			250	1,256		
FY19	259,463		-17%	249	1,042		-17%
FY20	332,145		28%	252	1,318		26%
FY21	340,088		2%	252	1,350		2%
FY22	320,783		-6%	252	1,273		-6%
FY23	275,456		-14%	250	1,102		-13%

Source: Company data, RHB

Figure 2: FY23F (until May) 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	59,541,157	-5%	-11%	61	0.98	-4%	-11%
Period	Volume (contracts)		YoY (%)	Trading days	DDAV (m)		YoY (%)
FY18	197,922,267			250	0.79		
FY19	240,239,056		21%	249	0.96		22%
FY20	243,646,206		1%	251	0.97		1%
FY21	232,493,354		-5%	253	0.92		-5%
FY22	248,238,941		7%	252	0.99		7%
FY23	250,962,220		1%	250	1.00		2%

Source: Company data, RHB

Figure 3: Monthly securities market turnover (until June)



Source: Company data, RHB

Figure 4: Monthly SDAV (until June)



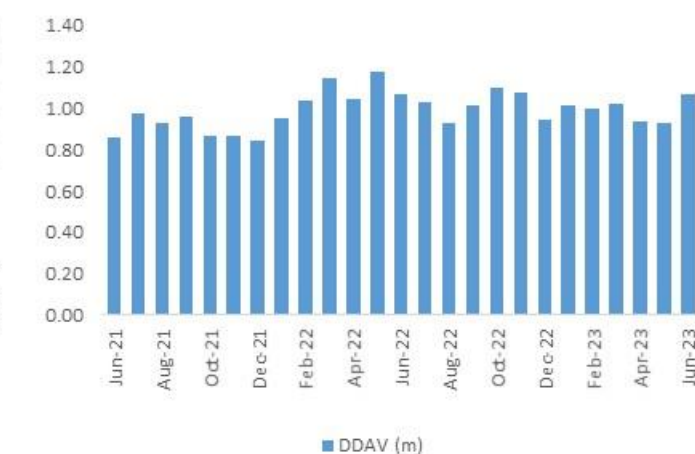
Source: Company data, RHB

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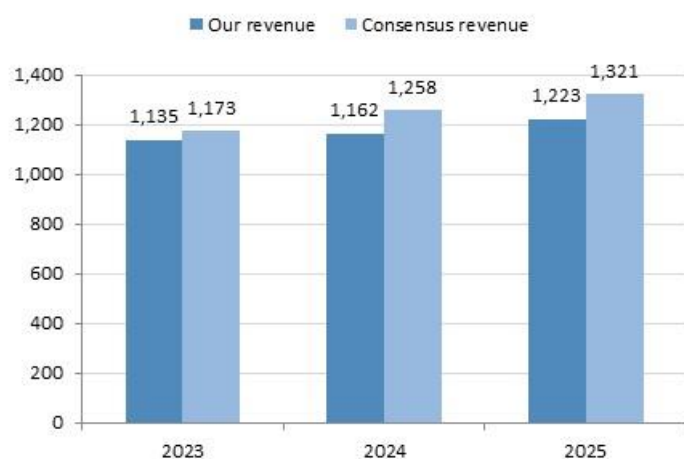
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**Figure 5: Monthly derivatives trading volumes (until June)**


Source: Company data, RHB

**Figure 6: Monthly DDAV (until June)**


Source: Company data, RHB

**Figure 7: RHB revenue estimates vs consensus (SGDm)**


Source: Bloomberg, RHB

**Figure 8: RHB profit estimates vs consensus (SGDm)**


Source: Bloomberg, RHB

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


Note: Prices as at 13 Jul 2023

Source: Company data, Bloomberg, RHB

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


Note: Prices as at 13 Jul 2023

Source: Company data, Bloomberg, RHB

Figure 11: Changes to estimates

	Net earnings (SGDm)			EPS (SGD)			DPS (SGD)		
	Previous	Revised	Chg %	Previous	Revised	Chg %	Previous	Revised	Chg %
2022	456	456	0.0	0.41	0.41	0.0	0.32	0.32	0.0
2023F	456	440	(3.5)	0.41	0.40	(3.5)	0.32	0.32	0.0
2024F	480	463	(3.4)	0.43	0.42	(3.4)	0.32	0.32	0.0
2025F	524	508	(3.1)	0.47	0.46	(3.1)	0.32	0.32	0.0

Source: Company data, RHB

## Recommendation Chart

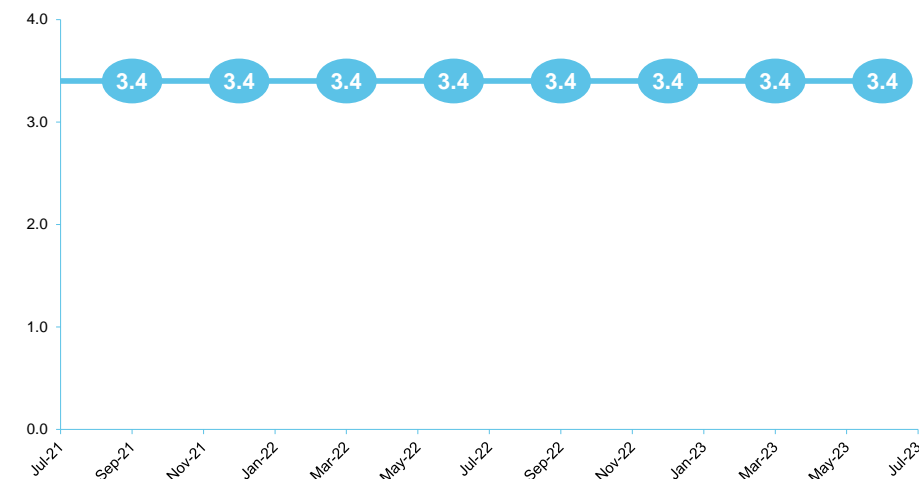


Source: RHB, Bloomberg

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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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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<b>Not Rated:</b>	Stock is not within regular research coverage

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