

13 December 2022

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Derivatives Volumes On The Rise; NEUTRAL

Target Price (Return): SGD9.30 (+2%)
 Price (Market Cap): SGD9.12 (USD7,195m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (SGD/USD) 21.6m/15.4m

• **NEUTRAL, SGD9.30 TP, 2% upside.** Singapore Exchange's implied FY23F (Jun) securities daily average value (SDAV) and the derivatives daily average volume (DDAV), based on the first five months of data, are tracking our forecast. While SDAV improved MoM, the YoY weakness has persisted. If this weakness continues, there could be downside risks to our FY23 estimate. SGX's recent share price rebound has brought its forward P/E in line with the historical mean – which is fair, in view of an earnings decline in FY23F and its unexciting 3.5% dividend yield.

• **Securities volume up MoM but still down YoY.** In November, the total securities market turnover value was SGD27.2bn (-3% YoY, +18% MoM), while the SDAV stood at SGD1.24bn (-8% YoY, +7% MoM). The STI gained by 6.4%, and registered its strongest price performance since Mar 2021. During the month, SGX also saw the listing of NoonTalk Media on the Catalyst board. NoonTalk Media is a Singapore-based media entertainment company that specialises in artist & talent management, multimedia production and event conceptualisation. The implied FY23F SDAV, based on the first five months of data for FY23, is 1.3% above our estimate..

• **Strong FX volume growth supports higher derivatives volume YoY.** In November, the total derivatives traded volume rose to 23.7m contracts (+30% YoY, +8% MoM), the highest reported by SGX since March. The DDAV was 1.08m (+24% YoY, -2% MoM). The expectations of China's gradual reopening and expanded government support for the country's property sector fanned the risk-on sentiment in Asian equities, currencies and commodities. Amongst SGX's derivative offerings, the volume of SGX FTSE A50 Index Futures increased 24% YoY to 9.3m contracts, while benchmark iron ore derivatives gained 69% YoY to 3.2m contracts. Hedging activity on SGX's FX OTC and futures marketplace accelerated amid USD weakness. Total FX futures traded volume surged 104% YoY 4m contracts, which is an all-time high. We have provided our earnings and TP sensitivity to changes in SDAV and DDAV in Figure 5 and 6.

• **The historical mean P/E seems fair.** SGX's current one year forward P/E of 22x is in line with its historical average P/E. As we foresee downside risks to our and consensus estimates from the ongoing weakness in SDAV, we recommend that investors wait for a better entry point. In addition, the stock's dividend yield is well below the STI's forward yield of 4.9%. Our TP is based on a target P/E of 21x on 12 months' forward EPS. Our TP includes an ESG premium of 8% over its fair value of SGD8.60, as per our in-house proprietary methodology.

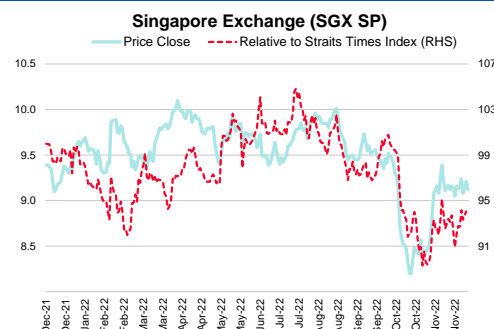
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.9)	0.3	(5.5)	(5.7)	(3.4)
Relative	(5.8)	(0.2)	(4.6)	(7.7)	(6.9)
52-wk Price low/high (SGD)	8.20 – 10.1				



Source: Bloomberg

Overall ESG Score: 3.40 (out of 4)

E: EXCELLENT

SGX is a component of Bloomberg ESG Data and MSCI World ESG Leader indices. One initiative in FY2020 was the purchase of renewable energy certificates to offset its electricity consumption that FY. Staff is encouraged to adopt digital practices to conserve paper usage. Only 100% recyclable paper products are used, and these are from certified suppliers committed to zero deforestation.

S: GOOD

SGX rolled out a SGD5m care package in 2020 to provide support and relief measures when the COVID-19 pandemic occurred. 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 was ranked fourth in the 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	1,122	1,181	1,243
Recurring net profit (SGDm)	445	451	430	455	489
Recurring net profit growth (%)	(5.8)	1.3	(4.7)	5.9	7.4
Recurring P/E (x)	21.91	21.61	22.67	21.41	19.93
P/B (x)	7.0	6.3	5.9	5.5	5.1
P/CF (x)	17.65	16.71	26.28	17.98	16.91
Dividend Yield (%)	3.5	3.5	3.5	3.5	3.5
EV/EBITDA (x)	13.50	13.24	13.55	12.77	11.74
Return on average equity (%)	33.9	30.8	27.0	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	27.0	26.8	26.6
Neutral						
	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Recurring P/E (x)	21.91	21.61	22.67	21.41	19.93
	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)	13.50	13.24	13.55	12.77	11.74
	EV/EBIT (x)	15.90	15.62	16.20	15.23	13.89
	Income statement (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total turnover	1,056	1,099	1,122	1,181	1,243
	Gross profit	1,056	1,099	1,122	1,181	1,243
	EBITDA	625	634	619	646	687
	Depreciation and amortisation	(95)	(97)	(101)	(105)	(106)
	Operating profit	531	537	518	542	581
	Net interest	13	9	4	5	7
	Pre-tax profit	536	545	519	549	590
	Taxation	(91)	(93)	(89)	(93)	(100)
	Reported net profit	445	451	430	455	489
	Recurring net profit	445	451	430	455	489
	Cash flow (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Change in working capital	27	16	(145)	3	3
	Cash flow from operations	553	584	371	542	576
	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	955	1,096
	Net change in cash	145	(75)	(42)	140	181
	Ending balance cash	1,060	998	955	1,096	1,277
	Balance sheet (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Total cash and equivalents	1,101	1,092	1,050	1,190	1,371
	Tangible fixed assets	285	251	250	236	214
	Total investments	223	315	315	316	316
	Total assets	3,023	3,848	3,560	3,737	3,950
	Short-term debt	0	42	0	0	0
	Total liabilities	1,633	2,299	1,914	1,968	2,025
	Total equity	1,390	1,549	1,646	1,769	1,925
	Total liabilities & equity	3,023	3,848	3,560	3,737	3,950
	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Revenue growth (%)	0.3	4.1	2.1	5.2	5.3
	Recurrent EPS growth (%)	(5.8)	1.4	(4.7)	5.9	7.4
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	59.2	57.7	55.1	54.7	55.3
	Net profit margin (%)	42.2	41.1	38.3	38.6	39.4
	Dividend payout ratio (%)	76.9	75.8	79.6	75.1	69.9
	Capex/sales (%)	4.3	4.0	6.7	5.5	4.8
	Interest cover (x)	111	73	37	39	42

Source: Company data, RHB

Operating Data

Figure 1: FY23F (until Nov 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	50,337	na	Na	42	1,199	12.6%	8.1%

Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)
YTD-FY18	125,684		106	1,186	
YTD-FY19	113,424	-9.8%	107	1,060	-10.6%
YTD-FY20	115,794	2.1%	107	1,082	2.1%
YTD-FY21	137,381	18.6%	106	1,296	19.8%
YTD-FY22	130,844	-4.8%	106	1,234	-4.8%
YTD-FY23	118,430	-9.5%	106	1,117	-9.5%

Source: Company data, RHB

Figure 2: FY23F (till Nov 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	45,620,603	na	na	42	1.09	10%	26.8%

Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)
YTD-FY18	79,098,837		106	0.75	
YTD-FY19	95,849,439	21%	107	0.90	20%
YTD-FY20	96,464,252	1%	107	0.90	1%
YTD-FY21	98,940,278	3%	107	0.92	3%
YTD-FY22	97,387,501	-2%	106	0.92	-1%
YTD-FY23	108,807,512	12%	106	1.03	12%

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	1.04	1.05	1.10	1.15
970	323	343	363	399	404	424	444
1,020	333	353	374	410	414	434	454
1,070	344	364	384	420	424	444	465
1,118	354	374	394	430	434	454	475
1,170	364	384	405	441	445	465	485
1,220	375	395	415	451	455	475	496
1,270	385	405	425	461	466	486	506

Source: Bloomberg, RHB

Figure 6: TP sensitivity to SDAV and DDAV

SDAV (SGDm)	DDAV (m)						
	0.85	0.90	0.95	1.04	1.05	1.10	1.15
970	8.10	8.30	8.50	9.00	9.00	9.20	9.40
1,020	8.20	8.40	8.60	9.10	9.10	9.30	9.50
1,070	8.30	8.50	8.70	9.20	9.20	9.40	9.60
1,118	8.40	8.60	8.90	9.30	9.30	9.50	9.70
1,170	8.50	8.70	9.00	9.40	9.40	9.60	9.80
1,220	8.60	8.90	9.10	9.50	9.50	9.70	9.90
1,270	8.70	9.00	9.20	9.60	9.60	9.80	10.00

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

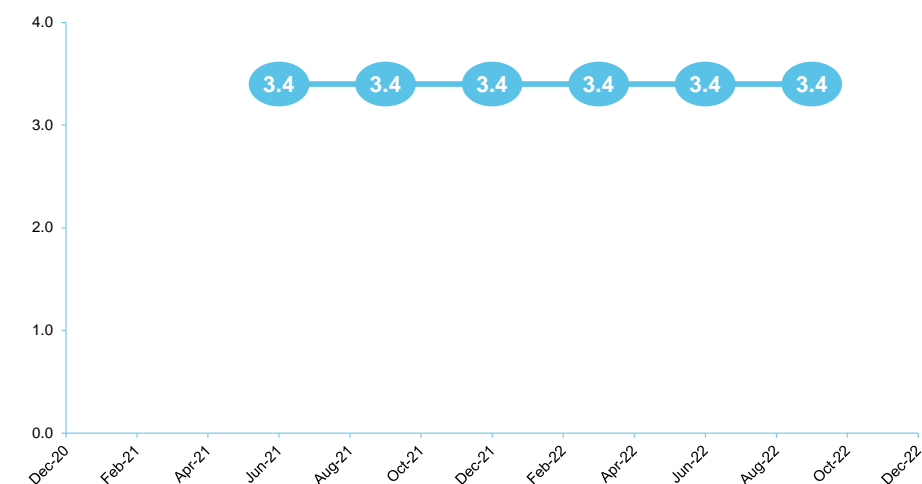


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-12-07	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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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