

26 May 2022

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Soft Near-Term Earnings Outlook

Target Price (Return): SGD10.40 (6.6%)
 Price (Market Cap): SGD9.76 (USD7,709m)
 ESG score: 3.40 (out of 4)
 Avg Daily Turnover (SGD/USD) 21.7m/15.9m

• **NEUTRAL, new SGD10.40 TP from SGD10.00, 7% upside**, as we roll forward our valuation basis to FY23F. While higher treasury income from US Federal Reserve (US Fed) rate hikes, as well as improved data, connectivity and indexes (DCI) and fixed income, currencies and commodities (FICC) revenue should support higher FY23F profit, FY22F earnings could remain soft amidst higher cost growth and a weak cash equities turnover. While global macroeconomic uncertainties could lead to better-than-expected trading volumes, we note the stock is trading above the historical average P/E.

• **YTD FY22 market statistics tracking our estimates.** SGX has seen a YoY decline in cash equities turnover over the last two months (March and April). The securities daily average value (SDAV) came in at SGD1,554m (down 8% YoY) and SGD1,271m (down 1% YoY) respectively in March and April. This brings the YTD SDAV to SGD1,274m for FY22, which is c.5% higher than our FY22F SDAV of SGD1,219m. SGX's derivatives segment saw a sharp uptick in trading activity, with average daily trading volumes (DDAV) of 1.14m (+11% YoY) and 1.04 (+25% YoY) in March and April. YTD DDAV is tracking c.2% below our FY22F estimates.

• **Our FY22 estimates are above consensus'.** We estimate SGX will report SGD625m of EBITDA and SGD447m of profit in FY22F. This is higher than the consensus estimates of SGD608m and SGD434m, respectively. As our revenue estimate is in line with consensus', we believe Street may be factoring in higher operating costs for FY22F.

• **Reasonable valuation; rolling forward the valuation to FY23F.** SGX's FY23F P/E is above its historical average (Figure 3) and offers a modest yield of 3.3% (STI's yield is +4%). Our TP of SGD10.40 is now based on 22x (earlier 23x) FY23F (earlier FY22F) EPS. The TP includes an ESG premium of 8% over its fair value of SGD9.60. Our target P/E is now in line with its historical average P/E.

• **Including earnings and TP sensitivity on FY23 estimates.** As the uncertain macroeconomic environment could persist well beyond Jun 2022 and likely boost SGX's earnings, we have included the FY23F earnings and TP sensitivity analysis in Figure 1 and Figure 2.

• **Risks.** Downside risks: i) Higher operating costs for FY22F; ii) slower ramp up in revenue contribution from recent acquisitions. Upside risks: i) Higher-than-estimated SDAV from the potential pipeline of ETFs, REITs, and Special Purpose Acquisition Company (SPAC) listings; and ii) continued global macroeconomic uncertainties leading to better-than-expected derivatives volumes.

Analyst

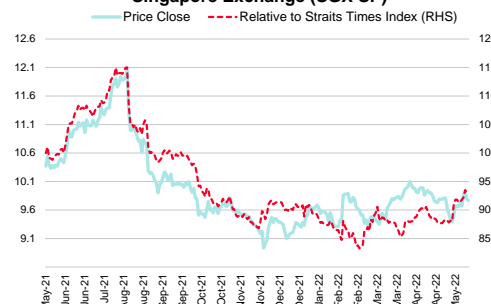
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	(0.9)	3.5	5.5	(5.9)
Relative	3.1	3.9	7.0	6.8	(7.0)
52-wk Price low/high (SGD)				8.93 – 12.1	

Singapore Exchange (SGX SP)



Source: Bloomberg

Forecasts and Valuation	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Total turnover (SGDm)	1,053	1,056	1,095	1,144	1,195
Recurring net profit (SGDm)	473	445	447	474	506
Recurring net profit growth (%)	20.9	(5.8)	0.4	6.1	6.8
Recurring P/E (x)	22.09	23.45	23.36	22.02	20.62
P/B (x)	8.4	7.5	7.0	6.4	5.8
P/CF (x)	16.74	18.89	22.74	18.88	17.98
Dividend Yield (%)	3.1	3.3	3.3	3.3	3.3
EV/EBITDA (x)	14.59	14.59	14.25	13.28	12.35
Return on average equity (%)	40.5	33.9	31.0	30.3	29.4
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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 RE 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 sourced from certified suppliers 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.

Financial Exhibits

Asia	Financial summary (SGD)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Singapore	Recurring EPS	0.44	0.42	0.42	0.44	0.47
Financial Services	DPS	0.31	0.32	0.32	0.32	0.32
Singapore Exchange	BVPS	1.16	1.29	1.40	1.53	1.69
SGX SP	Return on average equity (%)	40.5	33.9	31.0	30.3	29.4
Neutral						
	Valuation metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Recurring P/E (x)	22.09	23.45	23.36	22.02	20.62
	P/B (x)	8.4	7.5	7.0	6.4	5.8
	FCF Yield (%)	5.6	4.9	3.8	4.7	5.0
	Dividend Yield (%)	3.1	3.3	3.3	3.3	3.3
	EV/EBITDA (x)	14.59	14.59	14.25	13.28	12.35
	EV/EBIT (x)	16.91	17.19	16.87	15.64	14.37
	Income statement (SGDm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total turnover	1,053	1,056	1,095	1,144	1,195
	Gross profit	1,053	1,056	1,095	1,144	1,195
	EBITDA	657	625	625	659	693
	Depreciation and amortisation	(90)	(95)	(97)	(100)	(98)
	Operating profit	567	531	528	559	596
	Net interest	13	13	9	11	12
	Pre-tax profit	572	536	539	572	610
	Taxation	(99)	(91)	(91)	(97)	(103)
	Reported net profit	473	445	447	474	506
	Recurring net profit	473	445	447	474	506
	Cash flow (SGDm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Change in working capital	25	27	(64)	2	3
	Cash flow from operations	624	553	459	553	581
	Capex	(35)	(45)	(65)	(60)	(60)
	Cash flow from investing activities	(314)	(198)	(46)	(38)	(36)
	Dividends paid	(321)	(342)	(342)	(342)	(342)
	Cash flow from financing activities	(70)	(210)	(203)	(354)	(354)
	Cash at beginning of period	667	907	1,060	1,271	1,432
	Net change in cash	240	145	211	161	191
	Ending balance cash	907	1,060	1,271	1,432	1,623
	Balance sheet (SGDm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total cash and equivalents	956	1,101	1,312	1,473	1,664
	Tangible fixed assets	306	285	293	279	266
	Total investments	216	223	223	224	224
	Total assets	2,679	3,023	3,288	3,477	3,699
	Short-term debt	304	0	0	0	0
	Total liabilities	1,430	1,633	1,786	1,837	1,887
	Total equity	1,249	1,390	1,501	1,641	1,812
	Total liabilities & equity	2,679	3,023	3,288	3,477	3,699
	Key metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Revenue growth (%)	15.7	0.3	3.7	4.5	4.5
	Recurrent EPS growth (%)	20.9	(5.8)	0.4	6.1	6.8
	Gross margin (%)	100.0	100.0	100.0	100.0	100.0
	Operating EBITDA margin (%)	62.4	59.2	57.1	57.6	58.0
	Net profit margin (%)	44.9	42.2	40.8	41.4	42.4
	Dividend payout ratio (%)	69.0	76.9	76.6	72.2	67.6
	Capex/sales (%)	3.3	4.3	5.9	5.2	5.0
	Interest cover (x)	196	111	51	48	51

Source: Company data, RHB

Sensitivity Analysis

Figure 1: FY22F earnings sensitivity to SADV and ADC

		ADC (m)						
		0.85	0.90	0.95	1.02	1.05	1.10	1.15
ADV (SGDm)	1,070	380	398	417	442	453	472	490
	1,120	391	409	427	453	464	482	501
	1,170	401	420	438	464	475	493	511
	1,219	412	430	449	474	485	504	522
	1,270	423	441	459	485	496	514	533
	1,320	433	452	470	496	507	525	543
	1,370	444	462	481	506	517	536	554

Source: Company data, RHB

Figure 2: TP sensitivity to SADV and ADC

		ADC (m)						
		0.85	0.90	0.95	1.02	1.05	1.10	1.15
ADV (SGDm)	1,070	8.30	8.70	9.10	9.70	9.90	10.40	10.70
	1,120	8.50	9.00	9.40	9.90	10.20	10.60	10.90
	1,170	8.70	9.20	9.60	10.20	10.40	10.80	11.20
	1,219	9.00	9.40	9.80	10.40	10.60	11.00	11.40
	1,270	9.30	9.60	10.00	10.60	10.90	11.20	11.70
	1,320	9.50	9.90	10.30	10.80	11.10	11.40	11.90
	1,370	9.70	10.20	10.50	11.10	11.30	11.80	12.10

Source: Company data, RHB

Valuation

Figure 3: SGX's 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: SGX's 12-month forward P/BV



Source: Bloomberg, RHB

Figure 5: Peer comparison

Company name	BBG ticker	M Cap (USD m)	1FY year	P/E		EV/EBITDA		P/BV		D Yield 1FY	ROE 1FY	E. Margin 1FY
				1FY	2FY	1FY	2FY	1FY	2FY			
ASX	ASX AU	11,308	Jun-22	31.9	30.0	13.7	13.1	4.22	4.15	2.8%	13.3%	72.6%
BSE	BSE IN	1,197	Mar-23	29.3	25.3	14.1	12.3	3.45	3.33	2.0%	11.9%	38.7%
Bursa Malaysia	BURSA MK	1,247	Dec-22	21.6	20.6	na	na	6.59	6.31	4.3%	30.3%	58.4%
HKEx	388 HK	52,427	Dec-22	33.3	28.3	na	na	7.84	7.41	2.7%	24.3%	78.0%
Japan Exchange	8697 JP	8,144	Mar-23	20.8	20.2	9.8	9.3	-	-	3.0%	16.2%	65.9%
NZX	NZX NZ	260	Dec-22	24.8	21.1	11.8	10.4	3.69	3.85	4.4%	16.8%	38.1%
Weighted average		74,583		31.5	27.5	3.4	3.2	7.11	6.75	2.8%	21.6%	74.7%
SGX	SGX SP	7,710	Jun-22	23.4	22.0	16.4	15.6	6.98	6.39	3.3%	31.0%	57.1%

Source: Company data, Bloomberg, RHB

Recommendation Chart

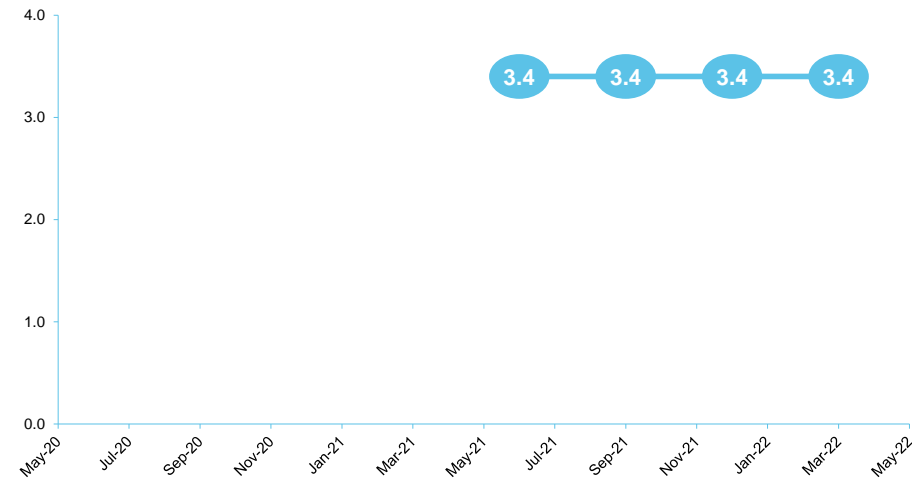


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-03-29	Neutral	10.0	9.8
2022-01-18	Neutral	9.8	9.5
2021-12-09	Neutral	10.3	9.5
2021-08-05	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
2020-06-24	Buy	9.2	8.1
2020-05-27	Neutral	8.6	8.8
2020-04-24	Neutral	9.7	9.6
2020-04-06	Neutral	9.1	9.3

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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