20 October 2022

Financial Services | Exchanges

Singapore Exchange (SGX SP)

Neutral (Maintained)

Operating Data Continues To Underwhelm

Target Price (Return):	SGD9.00 (+6%)
Price (Market Cap):	SGD8.47 (USD6,384m)
ESG score:	3.40 (out of 4)
Avg Daily Turnover (SGD/USD)	21.1m/15.1m

- **NEUTRAL, new SGD9.00 TP from SGD10.30, 6% upside with c.4% yield.** We cut FY23-25F (Jun) earnings by 8-9% on lower securities daily average value (SDAV) estimates. The implied FY23F SDAV and derivatives daily average volume (DDAV), based on SGX's 1QFY23 reported data, were below our forecasts. Derivatives volume may stay high as investors try to manage portfolio risks, but we believe securities market turnover could remain muted in the near term as investors try to assess what comes next. This, and the high operating costs, may keep growth muted in FY23.
- **1QFY23 market turnover data fell below our estimates.** In September, the securities market turnover value climbed to SGD25.8bn (-5% YoY, +6% MoM), while SDAV came in at SGD1.17bn (-5% YoY, +6% MoM). The MoM rise in trading activity was aided by increased investor interest in the STI constituent and S-REIT counters. The securities turnover and SDAV for 1QFY23 were at SGD68.1bn (-13% YoY, -15% QoQ) and SGD1.06bn (-13% YoY, -19% QoQ). The implied FY23 SDAV, based on 1QFY23 data, was 16% below our old estimates. We have lowered FY23F SDAV by 9%. DDAV rose 14% MoM in September to 1.05m contracts (+9% YoY), achieving a single-day record of 2.97m contracts on 27 Sep. Total traded volume for the month climbed 9% MoM to 22.3m contracts (+5% YoY). The implied FY23 DDAV, based on 1QFY23 data, was 5% below our old estimate. We have lowered FY23 DDAV by 2%.
- **Valuations are starting to look interesting, but investors can wait.** While valuations are starting to look compelling, as SGX's FY23 P/E of 21.2x is now below the historical average of 22x, we believe that muted securities market turnover in coming quarters could keep investors at bay for now. Moreover, the stock offers a below-market dividend yield of c.4%. Our TP is based on a target P/E of 21x on FY23F EPS (vs 22x FY23F EPS previously), which is a tad below its historical average P/E. We believe this is reasonable, given the muted near-term earnings outlook. Our TP includes an ESG premium of 8% over its fair value of SGD8.60.
- **Risks.** Downside risks are higher-than-guided operating costs for FY23F, and a slower ramp-up in revenue contributions from acquisitions. The upside risks comprise higher-than-estimated SDAV from the potential pipeline of exchange traded funds, REITs, and special-purpose acquisition company listings, as well as continued global macroeconomic uncertainties leading to higher derivatives volumes.

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)	20.35	20.07	21.17	19.90	18.55
P/B (x)	6.5	5.9	5.5	5.1	4.7
P/CF (x)	16.39	15.52	24.57	16.70	15.74
Dividend Yield (%)	3.8	3.8	3.8	3.8	3.8
EV/EBITDA (x)	12.39	12.14	12.49	11.70	10.76
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

Analyst

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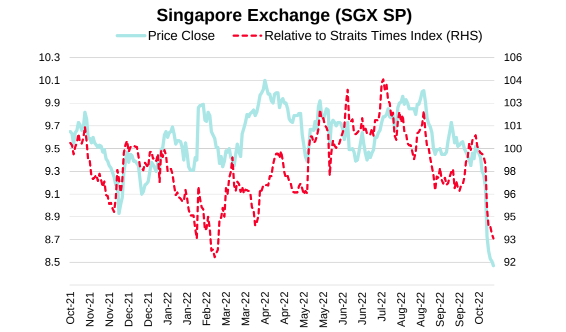
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.9)	(11.0)	(13.6)	(14.6)	(12.2)
Relative	(5.7)	(3.8)	(10.5)	(6.0)	(6.7)
52-wk Price low/high (SGD)					8.47 – 10.1



Source: Bloomberg

Overall ESG Score: 3.40 (out of 4)

E: EXCELLENT

SGX is a component of the 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 that are committed to zero deforestation.

S: GOOD

SGX rolled out a SGD5m SGX Care Package in Mar 2020 to provide support and relief measures when the pandemic first broke out. Part of the funds were 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 necessary Securities and Futures Regulations. It was ranked fourth in the Singapore Governance & Transparency Index 2019.

Financial Exhibits

Asia
Singapore
Financial Services
Singapore Exchange
SGX SP
Neutral

Valuation basis

P/E, as its share price is sensitive to near-term earnings volatility.

Key drivers

Our FY22F earnings are most sensitive to changes in:
i. Total securities trading volume;
ii. Total derivatives trading volume;
iii. Effective trading and clearing rates.

Key risks

Key downside risks to our call include:
i. Lower-than-expected securities market turnover;
ii. Lower-than-expected trading in derivative contracts;
iii. Lower-than-expected clearing and trading rate.

The converse represents upside risks.

Company Profile

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

Financial summary (SGD)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Recurring EPS	0.42	0.42	0.40	0.43	0.46
DPS	0.32	0.32	0.32	0.32	0.32
BVPS	1.29	1.44	1.53	1.65	1.79
Return on average equity (%)	33.9	30.8	26.9	26.8	26.6

Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Recurring P/E (x)	20.35	20.07	21.17	19.90	18.55
P/B (x)	6.5	5.9	5.5	5.1	4.7
FCF Yield (%)	5.6	6.0	3.2	5.3	5.7
Dividend Yield (%)	3.8	3.8	3.8	3.8	3.8
EV/EBITDA (x)	12.39	12.14	12.49	11.70	10.76
EV/EBIT (x)	14.59	14.32	14.94	13.96	12.73

Income statement (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover	1,056	1,099	1,120	1,180	1,242
Gross profit	1,056	1,099	1,120	1,180	1,242
EBITDA	625	634	616	646	686
Depreciation and amortisation	(95)	(97)	(101)	(105)	(106)
Operating profit	531	537	515	541	580
Net interest	13	9	4	5	7
Pre-tax profit	536	545	516	548	588
Taxation	(91)	(93)	(88)	(93)	(100)
Reported net profit	445	451	428	455	488
Recurring net profit	445	451	428	455	488

Cash flow (SGDm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
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: 1QFY23 SDAV data

Period	Total turnover (SGDm)	QoQ (%)	YoY (%)	Trading days	SDAV (SGDm)	QoQ (%)	YoY (%)
2QFY21	83,848			65	1,290		
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%

Period	Total turnover (SGDm)	YoY (%)	Trading days	SDAV (SGDm)	YoY (%)
YTD-FY18	73,224		63	1,162	
YTD-FY19	67,511	-7.8%	63	1,072	-7.8%
YTD-FY20	67,806	0.4%	64	1,059	-1.1%
YTD-FY21	77,918	14.9%	63	1,237	16.7%
YTD-FY22	78,363	0.6%	64	1,224	-1.0%
YTD-FY23	68,093	-13.1%	64	1,064	-13.1%

Source: Company data, RHB

Figure 2: 1QFY23 DDAV data

Period	Volume (contracts)	QoQ (%)	YoY (%)	Trading days	DDAV (m)	QoQ (%)	YoY (%)
2QFY21	53,442,121			65	0.82		
3QFY21	60,633,351	13.5%		62	0.98	18.9%	
4QFY21	54,514,009	-10.1%		62	0.88	-10.1%	
1QFY22	61,046,575	12.0%		64	0.95	8.5%	
2QFY22	55,687,092	-8.8%	4.2%	65	0.86	-10.2%	4.2%
3QFY22	64,888,445	16.5%	7.0%	62	1.05	22.2%	7.0%
4QFY22	66,616,829	2.7%	22.2%	61	1.09	4.3%	24.2%
1QFY23	63,186,909	-5.1%	3.5%	64	0.99	-9.6%	3.5%

Period	Volume (contracts)	YoY (%)	Trading days	DDAV (m)	YoY (%)
YTD-FY18	46,117,541		63	0.73	
YTD-FY19	54,213,897	17.6%	63	0.86	17.6%
YTD-FY20	61,881,239	14.1%	64	0.97	12.4%
YTD-FY21	63,903,873	3.3%	64	1.00	3.3%
YTD-FY22	61,046,575	-4.5%	64	0.95	-4.5%
YTD-FY23	63,186,909	3.5%	64	0.99	3.5%

Source: Company data, RHB

Sensitivity Analysis

Figure 3: 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 4: 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 5: SGX's 12-month forward P/E

Source: Bloomberg, RHB

Figure 6: SGX's 12-month forward P/BV

Source: Bloomberg, RHB

Figure 7: Peer comparison

Company name	BBG ticker	M Cap (USD m)	1FY year	P/E 1FY	P/E 2FY	EV/EBITDA 1FY	EV/EBITDA 2FY	P/BV 1FY	P/BV 2FY	D Yield 1FY	ROE 1FY	E. Margin 1FY
ASX	ASX AU	8,154	Jun-23	24.7	23.6	10.1	10.0	3.36	3.31	3.6%	13.7%	70.4%
BSE	BSE IN	958	Mar-23	28.1	23.0	13.5	10.8	2.95	2.86	1.7%	10.6%	30.1%
Bursa Malaysia	BURSA MK	1,049	Dec-22	21.3	19.9	na	na	6.06	5.72	4.4%	27.8%	57.4%
HKEx	388 HK	40,829	Dec-22	31.1	25.0	na	na	6.23	5.95	2.9%	20.4%	74.1%
Japan Exchange	8697 JP	6,986	Mar-23	21.2	20.7	10.3	9.9	-	-	3.0%	15.8%	64.7%
NZX	NZX NZ	233	Dec-22	25.3	23.3	12.6	11.5	4.25	4.49	4.8%	14.7%	37.6%
Weighted average		**58,210**		**28.8**	**24.2**	**2.9**	**2.8**	**5.70**	**5.46**	**3.0%**	**18.9%**	**71.3%**
SGX	SGX SP	6,360	Jun-23	21.2	19.9	14.4	13.7	5.53	5.14	3.8%	26.9%	55.0%

Source: Company data, Bloomberg, RHB

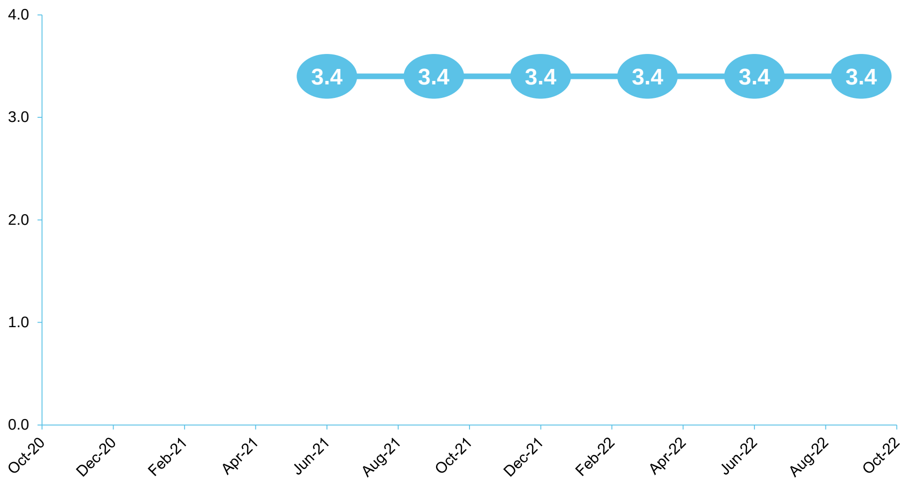
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-06-29	Buy	9.2	8.1
2020-06-24	Buy	9.2	8.1

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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