

Singapore Company Guide

Singapore Exchange

Version 15 | Bloomberg: SGX SP | Reuters: SGXL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Apr 2020

HOLD (downgrade from BUY)

Last Traded Price (24 Apr 2020): S\$9.64 (STI : 2,518.16)

Price Target 12-mth: S\$10.00 (4% upside) (Prev S\$9.60)

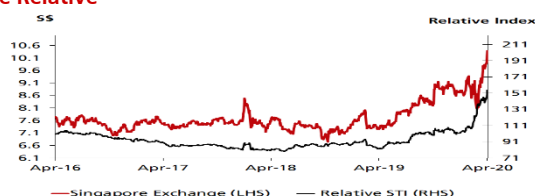
Analyst

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What's New

- Net profit of S\$138m (+38%y-o-y) beat consensus estimates
- 3QFY20 saw strong revenue growth across all segments
- Interim dividend of 7.5 Scts declared (unchanged y-o-y)
- Downgrade to HOLD, with revised TP of S\$10, on rich near-term valuations

Price Relative



Forecasts and Valuation

FY Jun (\$m)	2019A	2020F	2021F	2022F
Revenue	910	1,030	1,078	1,129
EBITDA	511	547	567	590
Pre-tax Profit	473	548	568	590
Net Profit	391	454	470	488
Net Pft (Pre Ex.)	391	454	470	488
Net Pft Gth (Pre-ex) (%)	7.8	16.0	3.6	3.8
EPS (S cts)	36.4	42.3	43.8	45.5
EPS Pre Ex. (S cts)	36.4	42.3	43.8	45.5
EPS Gth Pre Ex (%)	8	16	4	4
Diluted EPS (S cts)	36.4	42.3	43.8	45.5
Net DPS (S cts)	37.5	30.0	30.0	30.0
BV Per Share (S cts)	102	114	128	143
PE (X)	26.5	22.8	22.0	21.2
PE Pre Ex. (X)	26.5	22.8	22.0	21.2
P/Cash Flow (X)	24.8	21.2	21.1	20.3
EV/EBITDA (X)	19.0	17.5	16.6	15.8
Net Div Yield (%)	3.9	3.1	3.1	3.1
P/Book Value (X)	9.5	8.5	7.6	6.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	35.8	39.2	36.2	33.6
Earnings Rev (%):		10	5	
Consensus EPS (S cts):		42.8	42.5	43.1
Other Broker Recs:		B: 3	S: 4	H: 8

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Medium-term outlook remains intact

Valuations getting rich, downgrade to HOLD with revised TP of S\$10. We downgrade SGX to HOLD, with revised TP of S\$10 on rich near-term valuations. We believe the share price should continue to be supported near its current levels by its absolute dividend of 30 Scts/year, implying c.3% yield at the current level, amid a lower-yielding market environment. SGX is targeting to double revenue from Data, Connectivity and Indices (DCI), as well as Fixed Income, Currencies, Commodities (FICC) segments in the next five years as it looks at various investment opportunities and bolt-on acquisitions to fuel growth. SGX announced its first bolt-on earnings-accretive acquisition of Scientific Beta, a smart beta index firm, as it targets growth in the DCI space. We believe SGX will continue to benefit from strong demand for risk management instruments in the medium term as it continues to execute growth strategies to build a multi-asset exchange.

Where we differ: SGX's volume growth in derivatives in the last few years is testament to its execution capabilities. We believe that SGX has the prerequisites to power growth in the identified segments of FICC and DCI in the medium term.

Potential catalysts: Higher-than-expected growth in securities daily average value (SDAV) is a near-term re-rating catalyst.

Valuation:

Downgrade to HOLD with revised TP of S\$10 on rich near-term valuations. We downgrade SGX to HOLD on rich near-term valuations as its c.23x one-year forward PE multiple is at +1.5 SD above its 4-year historical mean. Our revised TP of S\$10 is based on the dividend discount model ($k=7\%$, $g=4\%$, $ROE=39\%$) as we revise our ROE assumptions from 38% to 39%. We also increased our earnings forecast for FY21F by c.5% as we believe that derivatives will continue to drive growth in revenues.

Key Risks to Our View:

Competition in derivatives business. SGX may see potential earnings downside should it face competition from HKEX which announced in March 2019 that it is planning to launch futures contracts. These may compete with SGX's FTSE China A50 Index Futures, which accounts for c.40% of SGX's total derivatives volume.

At A Glance

Issued Capital (m shrs)	1,070
Mkt. Cap (S\$m/US\$m)	10,315 / 7,245
Major Shareholders (%)	
SEL Holdings Pte Ltd	23.3
Temasek Holdings	5.7
Free Float (%)	71.0
3m Avg. Daily Val (US\$m)	32.3
GIC Industry : Financial / Diversified Financials	



Live more, Bank less

WHAT'S NEW

Solid 3QFY20

SGX reported quarterly net profit of S\$138m (+38% y-o-y, +38% q-o-q) which was ahead of consensus. Total revenue growth (S\$296m, +29% y-o-y, +28% q-o-q) outpaced that of expenses as all segments saw strong growth in the quarter, driven by volatility in global markets and increased participation from customers. SGX's guidance for operating expenses increased to S\$485-495m on higher activity-related costs, launch of SGX care package (S\$5m) and acquisition of Scientific Beta. SGX will be incurring interest expense going forward on its c.S\$300m borrowings which will be rolled into long-term debt.

Strong volumes across all asset classes. Cash equities trading and clearing revenue improved 65% y-o-y/48% q-o-q as Securities Daily Average Value (SDAV) at S\$1.61bn rose 51% y-o-y and 57% q-o-q on stable average clearing fees of 2.79bps (prior year: 2.80bps). Derivatives revenues continued to be driven by volumes in the quarter as volumes grew 26% y-o-y/54% q-o-q as iron ore contracts, currency futures, and main equity index futures all saw a surge in volumes, while average fee per contract for Equity, Currency and Commodity derivatives was stable at S\$1.12 (prior year: S\$1.11). Total open interest remained high at US\$6bn (+5% y-o-y) with high margin balances driving derivatives' collateral management income. Going forward, given lower interest rates, we expect collateral management income growth to slow.

Product updates. SGX is looking into introducing Single Stock Futures for selected Singapore stocks, which will provide access to Singapore risk premium. In relation to discussions on the joint derivatives project at India's GIFT city with National Stock Exchange of India (NSE), it will likely see some delay due to the ongoing COVID-19 situation. SGX continues to look into scaling up in the FX and index space post Scientific Beta's acquisition, which has contributed S\$6m in revenue since Feb 2020.

Shift to half-yearly reporting from FY21; dividends continue to be paid quarterly. SGX will continue to pay a quarterly DPS of 7.5 Scts and management has reaffirmed its aim to pay a sustainable and growing dividend over time, in line with SGX's long-term growth prospects.

Valuation and recommendation

Downgrade to HOLD with revised TP of S\$10 on rich near-term valuations. We downgrade SGX to HOLD, on rich near-term valuations as its c.23x one-year forward PE multiple is at +1.5 SD above its 4-year historical mean. Our revised TP of S\$10 is based on the dividend discount model (k=7%, g=4%, ROE=39%) as we revise our ROE assumptions from 38% to 39%. We also increased our FY21F earnings forecast by c.5% as we believe that derivatives will continue to drive growth in revenues.

Quarterly / Interim Income Statement (S\$m)

FY Jun	3Q20	2Q20	3Q19	% chng q-o-q	% chng y-o-y
Fixed income, currencies and commodities	45.5	39.0	37.0	16.6%	23.0%
Equities	217.3	165.3	165.7	31.5%	31.1%
Data, connectivity and indices	33.0	26.7	26.1	23.6%	26.5%
Total Revenue	295.8	230.9	228.8	28.1%	29.3%
Operating Expenses	-109.6	-89.4	-110.6	22.6%	-0.9%
Operating Profit	162.9	119.4	118.2	36.4%	37.8%
Pretax profit	165.7	121.3	121.2	36.6%	36.7%
Net Profit	137.5	99.0	99.7	38.9%	38.0%
Operating profit margin (%)	55.1%	51.7%	51.7%		
Net profit margin (%)	46.5%	42.9%	43.6%		
Securities daily average volume (m)	1,814	1,224	1,266	48.2%	43.3%
Securities daily average value (S\$m)	1,609	1,065	1,022	51.1%	57.4%
Derivatives average daily trading volume (m)	1,288	0,838	1,025	53.7%	25.6%
Velocity (%)	57%	34%	36%		
Open interest (m)	6.256	5.783	5.952		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH**Critical Factors****Market activity****1) Securities**

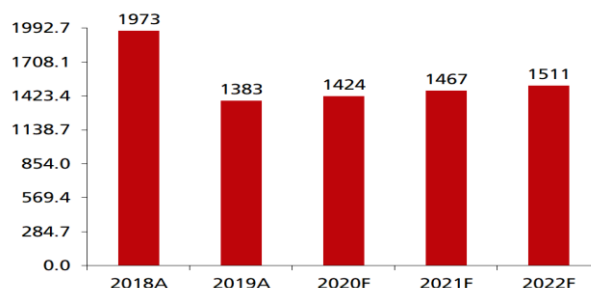
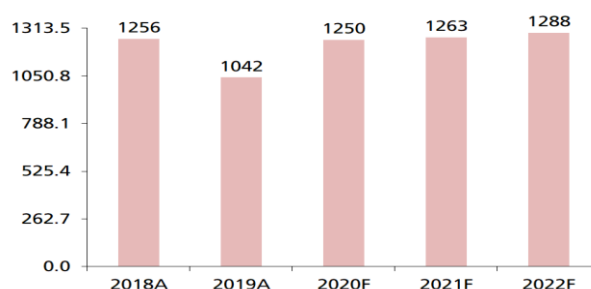
SGX derived about 20% of its total revenue from the Securities segment in FY19, down from 46% in FY10. Average daily turnover value (SDAV) for this segment has been hovering slightly above the S\$1bn mark in the last few years, from c.S\$1.5bn in FY10. SGX has already implemented several initiatives to boost liquidity in the securities market, including Market Maker and Liquidity Provider (MM/LP) programmes and new offerings such as Daily Leverage Certificates (DLCs) offered in July 2017. More recently, DLCs with higher leverage were also introduced. Other measures in the pipeline include: 1) Shorter settlement cycle to reduce credit risk exposure to the settlement system and improve efficiency, and 2) Short position reporting requirements to improve transparency. We note that SDAV has been a critical factor driving SGX's share price.

2) Derivatives

More product offerings. Contribution to total revenue from the Derivatives segment increased from about 21% in FY10 to c.51% in FY19. The mainly institutional-driven Derivatives business has been the key growth driver in recent years; derivatives revenue had overtaken the Securities market since 1QFY15. We expect this trend to persist as SGX continues to introduce more derivatives products, such as growing the market for currency futures. In FY19, SGX also benefitted from higher open interest and margin balances, in part due to higher interest rates which drove derivatives' collateral management income.

Diversifying business mix. SGX is also looking to diversify into other areas and reduce its reliance on the derivatives business by a) developing into a regional fixed income platform, with the launch of its bond trading platform – SGX Bond Pro; and b) growing its market data and index businesses.

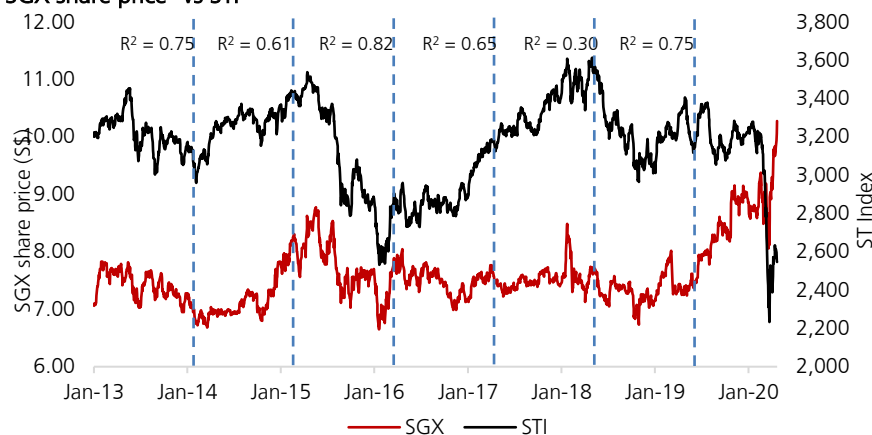
M&A to drive earnings. The acquisition of the Baltic Exchange for £77.6m (S\$137m) in cash was completed at the end of 2016. This purchase should enable SGX to boost its plans to diversify revenue streams from the Securities market and reduce reliance on the Derivatives market. SGX is also looking to expand its global presence in shipping and has been developing Asian pricing benchmarks for commodities such as iron ore, liquefied natural gas and coking coal. In FY20, SGX announced the acquisition of Scientific Beta for EUR186m; Scientific Beta will be earnings accretive with annual revenues of c. EUR20m historically.

Average Daily Volume (m)**Average Daily Value (\$m)**

Source: Company, DBS Bank

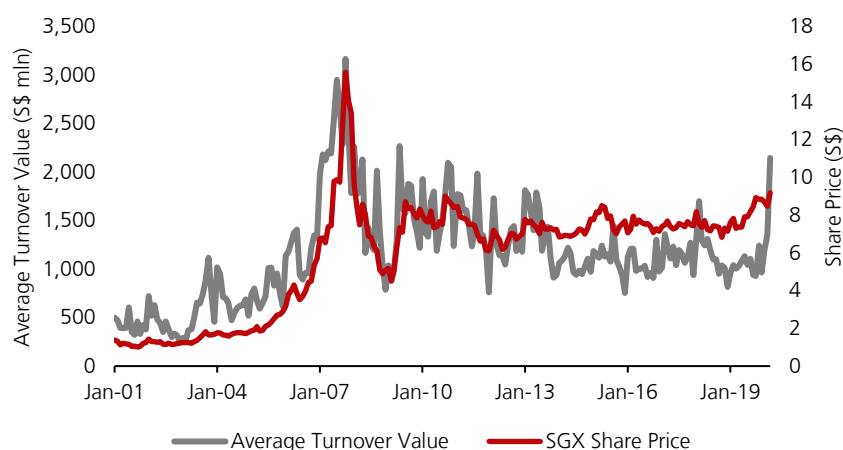
Appendix 1: A look at Company's listed history – what drives its share price?

SGX share price vs STI



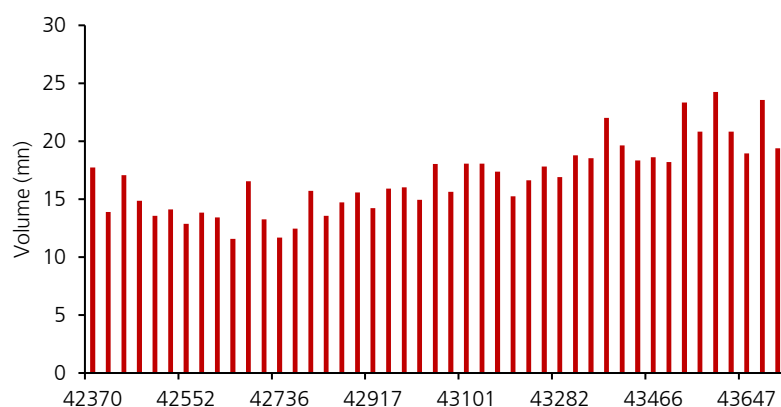
SGX's share price has generally been tracking in the same direction with the STI Index. Correlation between SGX's share price and STI has weakened tremendously, as derivatives business continues to drive SGX's performance.

SGX share price vs average trading value for the market



SGX's share price and trading value for the market are more closely related, with correlation coefficient of ~0.8 from January 2001 till today. As at FY19, the Securities segment accounted for 20% of total revenue.

Total derivatives volume



Derivatives volume has been growing at a 5-year CAGR of 15%. In terms of contribution to the group's revenues, this had increased from c.30% in FY14 to c.51% in FY19.

Source: DBS Bank, Bloomberg Finance L.P.

Singapore Exchange

Balance Sheet:

Cash and liquid assets account for almost half of the total assets as SGX needs to set aside at least S\$500m for working capital requirements. SGX expects to maintain healthy cash flows going forward. In FY18, SGX announced its new dividend policy of an absolute dividend of 7.5 Scts per quarter (dividends are paid on a quarterly basis).

Share Price Drivers:

New derivatives products to drive growth but gestation period may be long. The addition of new products should continue to drive growth for the Derivatives segment. Some of the new products include the NTR (net total return) Index futures launched in June 2017 and the MSCI China Index contracts launched in May 2016. However, some products may take a while before volumes pick up. The FTSE China A50 Index futures, which is the top index futures in terms of volume and accounts for about 40% of total volume for index futures in CY19, took about three years before seeing a ramp-up in volume.

Key Risks:

Competition in derivatives business. The top four index futures – FTSE China A50, Nikkei 225, SGX CNX Nifty and MSCI Taiwan – accounted for about c.70% of the total monthly volume in the derivatives market for CY19. SGX may face competition from HKEX which announced in March 2019 that it is planning to launch futures contracts which may compete with SGX's FTSE China A50 Index futures, its top index futures.

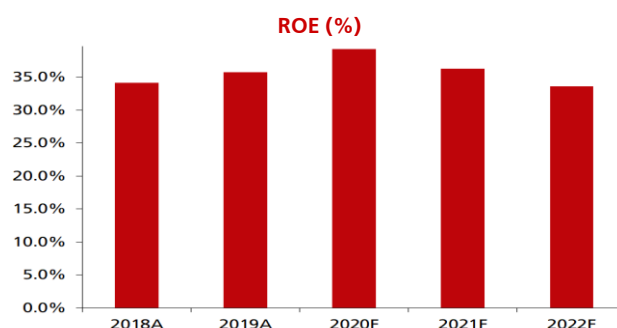
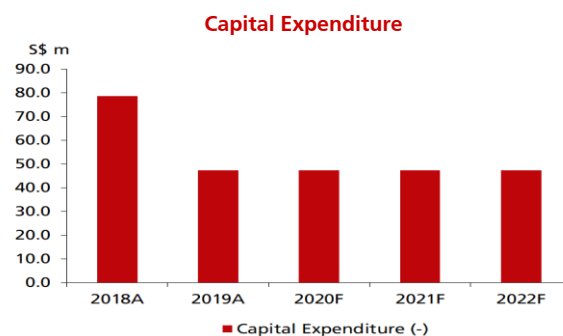
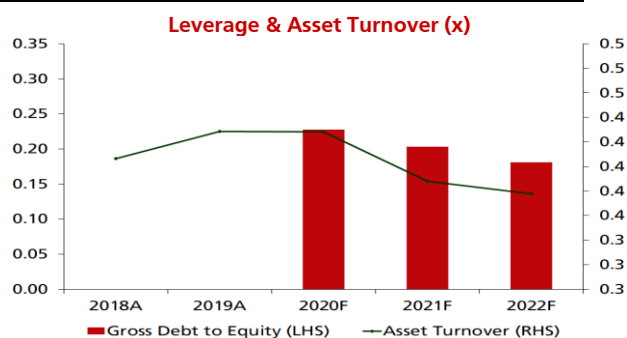
Sustainability of market liquidity. SGX's earnings are reliant on market volumes and capital market activities, which are sentiment-driven and influenced by the direction of foreign fund flows. Negative market sentiment resulting in lower liquidity could dampen market volumes and values.

Environment, Social, Governance:

SGX's ESG disclosure score had improved over the last few years to reach 26.0 (FY18), as SGX continues to improve its sustainable practices and advocates transparency and accountability as part of its sustainability agenda. SGX remains as a constituent stock of major sustainability indices.

Company Background

Singapore Exchange Limited (SGX) owns and operates Singapore's Securities and Derivatives Exchange and related clearing houses. The company also provides ancillary securities processing and information technology services to participants in the financial sector.



Source: Company, DBS Bank

Key Assumptions

FY Jun	2018A	2019A	2020F	2021F	2022F
Average Daily Value (\$m)	1,256	1,042	1,250	1,263	1,288

Income Statement (\$m)

FY Jun	2018A	2019A	2020F	2021F	2022F
Revenue	845	910	1,030	1,078	1,129
Cost of Goods Sold	(420)	(449)	(489)	(516)	(546)
Gross Profit	425	461	542	562	584
Other Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	425	461	542	562	584
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	1.27	(1.5)	(5.0)	(5.0)	(5.0)
Net Interest (Exp)/Inc	10.9	13.5	11.0	11.0	11.0
Exceptional Gain/(Loss)	0.44	(0.1)	0.0	0.0	0.0
Pre-tax Profit	437	473	548	568	590
Tax	(74.3)	(81.9)	(93.7)	(97.9)	(102)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	363	391	454	470	488
Net Profit before Except.	363	391	454	470	488
EBITDA	476	511	547	567	590
Growth					
Revenue Gth (%)	5.5	7.7	13.2	4.6	4.8
EBITDA Gth (%)	5.6	7.2	7.0	3.8	3.9
Opg Profit Gth (%)	5.7	8.5	17.5	3.7	3.9
Net Profit Gth (Pre-ex) (%)	5.5	7.8	16.0	3.6	3.8
Margins & Ratio					
Gross Margins (%)	50.3	50.7	52.6	52.1	51.7
Opg Profit Margin (%)	50.3	50.7	52.6	52.1	51.7
Net Profit Margin (%)	43.0	43.0	44.0	43.6	43.2
ROAE (%)	34.1	35.8	39.2	36.2	33.6
ROA (%)	17.5	18.4	18.9	16.9	16.3
ROCE (%)	32.1	33.7	33.6	28.8	27.3
Div Payout Ratio (%)	88.4	102.9	71.0	68.5	66.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

SGX's guidance for operating expenses increased to S\$485-495m on higher activity-related costs, launch of SGX care package (S\$5m) and acquisition of Scientific Beta

Losses expected for SGX's portfolio of companies

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Jun	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Revenue	229	248	248	231	296
Cost of Goods Sold	(111)	(125)	(113)	(112)	(133)
Gross Profit	118	123	135	119	163
Other Oper. (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	118	123	135	119	163
Other Non Opg (Exp)/Inc	3.05	3.31	4.58	1.91	5.26
Associates & JV Inc	(0.6)	(0.3)	(0.5)	(0.8)	(2.4)
Net Interest (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	121	126	139	121	166
Tax	(21.0)	(22.0)	(24.6)	(21.5)	(28.2)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	99.7	104	114	99.0	138
Net profit bef Except.	99.7	104	114	99.0	138
EBITDA	121	126	139	121	166

Growth

Revenue Gth (%)	2.1	8.4	(0.2)	(6.7)	28.1
EBITDA Gth (%)	3.5	4.3	10.3	(13.2)	37.5
Opg Profit Gth (%)	4.0	3.9	9.7	(11.4)	36.4
Net Profit Gth (Pre-ex) (%)	3.3	4.2	10.0	(13.3)	38.9

Margins

Gross Margins (%)	51.7	49.5	54.4	51.7	55.1
Opg Profit Margins (%)	51.7	49.5	54.4	51.7	55.1
Net Profit Margins (%)	43.6	41.9	46.1	42.9	46.5

Balance Sheet (\$m)

FY Jun	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	71.8	61.0	98.2	135	171
Invt in Associates & JVs	8.63	79.1	74.1	69.1	64.1
Other LT Assets	354	415	415	415	415
Cash & ST Invt	832	667	1,064	1,186	1,326
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	827	885	1,003	1,049	1,099
Other Current Assets	22.0	25.0	25.0	25.0	25.0
Total Assets	2,115	2,132	2,679	2,879	3,100
ST Debt	0.0	0.0	278	278	278
Creditor	891	912	1,032	1,080	1,131
Other Current Liab	95.4	90.0	107	111	114
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	32.7	40.0	40.0	40.0	40.0
Shareholder's Equity	1,096	1,091	1,223	1,370	1,536
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Cap. & Liab.	2,115	2,132	2,679	2,879	3,100
Non-Cash Wkg. Capital	(137)	(91.0)	(111)	(116)	(122)
Net Cash/(Debt)	832	667	786	908	1,048
Debtors Turn (avg days)	354.7	343.5	334.5	347.4	347.2
Creditors Turn (avg days)	880.0	827.4	741.2	762.5	754.8
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	1.7	1.6	1.5	1.5	1.6
Quick Ratio (x)	1.7	1.5	1.5	1.5	1.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	17.0	17.0	17.0
Z-Score (X)	7.5	7.4	7.1	7.0	7.0

Source: Company, DBS Bank

Singapore Exchange

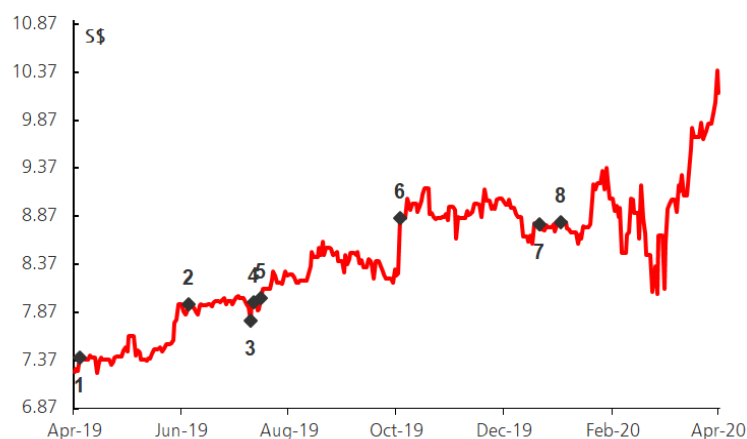
Cash Flow Statement (\$m)

FY Jun	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	437	473	548	568	590
Dep. & Amort.	50.2	51.3	10.1	10.6	11.0
Tax Paid	(71.4)	(82.4)	(77.2)	(93.7)	(97.9)
Assoc. & JV Inc/(loss)	(1.3)	1.50	5.00	5.00	5.00
Chg in Wkg.Cap.	(31.1)	(40.9)	3.45	1.36	1.47
Other Operating CF	42.9	15.1	0.0	0.0	0.0
Net Operating CF	427	417	489	491	509
Capital Exp.(net)	(78.5)	(47.4)	(47.4)	(47.4)	(47.4)
Other Invt.(net)	(25.5)	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(1.5)	(71.7)	0.0	0.0	0.0
Div from Assoc & JV	4.94	0.0	0.0	0.0	0.0
Other Investing CF	11.0	(41.2)	0.0	0.0	0.0
Net Investing CF	(89.5)	(160)	(47.4)	(47.4)	(47.4)
Div Paid	(300)	(401)	(322)	(322)	(322)
Chg in Gross Debt	0.0	0.0	278	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(2.3)	(20.7)	0.0	0.0	0.0
Net Financing CF	(302)	(422)	(44.0)	(322)	(322)
Currency Adjustments	0.01	0.0	0.0	0.0	0.0
Chg in Cash	35.2	(165)	398	122	140
Opg CFPS (\$ cts)	42.7	42.7	45.2	45.6	47.3
Free CFPS (\$ cts)	32.5	34.5	41.1	41.3	43.0

Technology-related
capex guidance of
S\$45-50m

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Apr 19	7.40	7.05	HOLD
2:	27 Jun 19	7.95	7.05	HOLD
3:	01 Aug 19	7.78	8.30	BUY
4:	03 Aug 19	7.98	8.30	BUY
5:	07 Aug 19	8.02	8.30	BUY
6:	25 Oct 19	8.85	8.90	BUY
7:	12 Jan 20	8.79	8.90	BUY
8:	24 Jan 20	8.81	9.60	BUY

Source: DBS Bank

Analyst: Rui Wen LIM

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 24 Apr 2020 19:10:55 (SGT)

Dissemination Date: 24 Apr 2020 19:40:00 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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