

Singapore Exchange Ltd

Continued strong 4Q13 results

Bloomberg | Reuters | POEMS
SGX SP | SGX SI | SGX
Industry: Investment Services

Phillip Securities Research Pte Ltd

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Report type: Quarterly Results Update

Company Overview

SGX Ltd operates as an integrated securities and derivatives exchange in Singapore. Security products include equities, bonds, exchange traded funds, warrants, and ADRs. Derivatives products include futures and options, structured warrants, and extended settlements.

- SGX reported 4Q13 underlying net profit of S\$102.6 million, and Total revenue of S\$202.3 million.
- Underlying net profit beat expectations, while higher FY13 dividend of S\$0.28 (FY12: S\$0.27) was declared.
- Maintain "BUY" with TP of S\$8.30, based on unchanged PE multiple of 24X FY14 earnings.

What is the news?

SGX Ltd announced 4Q13 underlying net profit of S\$102.6m, up 5.0% q-q, and 40.1% y-y. This excludes a S\$15.0m impairment charge on BSE investment. Total revenue increased 6.1% q-q to S\$202.3m, with strong growth in contributions from both Securities and Derivatives revenue. Marginally higher dividends of S\$0.16 (4Q12: S\$0.15) was declared in 4Q13, bringing FY13 dividend payout ratio to 89.2%. Management guided FY14 Opex to be S\$320m-S\$330m (FY13A: S\$301m), and FY14 Capex to be S\$35m-S\$40m (FY13A: S\$32m).

Income Statement (Extract)	3Q13	4Q13	q-q (%)	Comments
(S\$m)				
Securities	75.6	76.6	1.4%	Strong SDAV of S\$1.6 bil
Derivatives	52.9	58.7	11.0%	Higher DDAV of 516k
Others	62.2	67.0	7.7%	
Total Rev	190.6	202.3	6.1%	Strong results
Opex	75.3	81.4	8.2%	Opex well managed
Net Income	97.7	87.6	-10.3%	
Net Income Adj	97.7	102.6	5.0%	Beat expectations

Source: Company, PSR

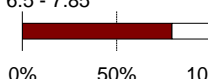
How do we view this?

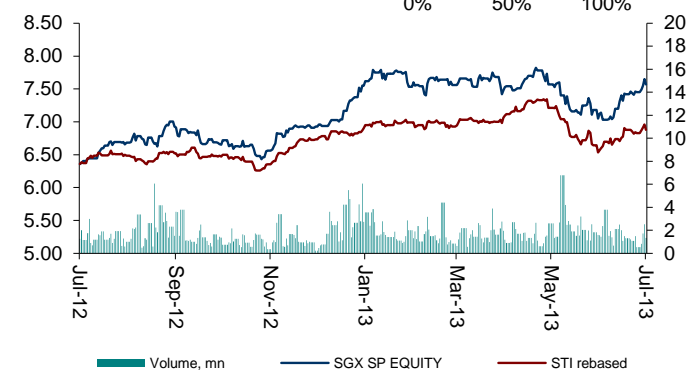
The strong 4Q13's results beat our expectations on 1) higher yield per Derivatives contract, 2) marginally higher average clearing fee per Securities traded value, 3) Higher Securities and Derivatives as discussed in our pre-results report dd 4th Jul 2013 and 4) Higher Securities settlement revenue likely from increased institutional settlement instructions, leading to higher Depository Revenue. The marginal increase in Dividends was however below our expectations for S\$0.18. Div payout ratio was the lowest since FY08, as earnings were retained for future growth.

Investment Actions?

We continue to be positive on SGX due to 1) Higher Securities revenue forecast 2) Strong Derivatives revenue 3) Attractive dividends, with potential for increase. Key risk includes weakening of the macro economy reducing trading activities for both Securities and Derivatives. We revise our forecast to reflect 4Q13's earnings. Based on an unchanged PE ratio of 24X, we derive an unchanged TP of S\$8.30, and maintain our "Buy" rating.

SGX Ltd

Rating	1	Buy
- Previous Rating	1	Buy
Target Price (SGD)	8.30	
- Previous Target Price (SGD)	8.30	
Closing Price (SGD)	7.57	
Expected Capital Gains (%)	9.6%	
Expected Dividend Yield (%)	4.0%	
Expected Total Return (%)	13.6%	
Raw Beta (Past 2yrs weekly data)	0.95	
Market Cap. (USD mn / SGD mn)	6384 / 8094	
Enterprise Value (USD mn / SGD mn)	5782 / 7331	
3M Average Daily T/O (mn)	1.8	
52 week range (SGD)	6.5 - 7.85	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. SEL Holdings Pte Ltd	23.4
2. Temasek Holdings Pte Ltd	5.7
3. Nomura Sec Singapore Pte Ltd	5.0

Key Financial Summary

FYE	06/12	06/13	06/14F	06/15F
Revenue (SGD mn)	648	715	757	786
Net Profit, adj. (SGD mn)	304	351	368	388
EPS, adj. (SGD cents)	28.45	32.83	34.41	36.34
P/E (X), adj.	26.6	23.1	22.0	20.8
BVPS (SGD cents)	77.74	82.92	89.24	94.74
P/B (X)	9.7	9.1	8.5	8.0
DPS (SGD cents)	27.00	28.00	30.00	32.00
Div. Yield (%)	3.6%	3.7%	4.0%	4.2%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E

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Fig 1. Securities Revenue

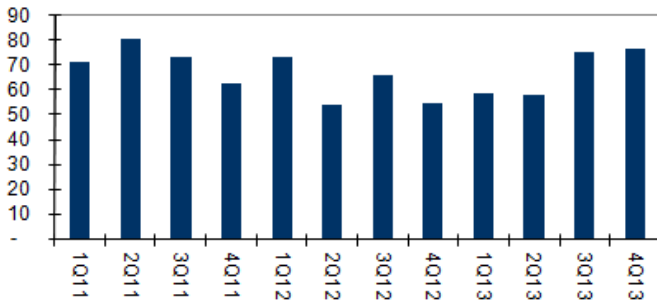


Fig 2. Derivatives Revenue

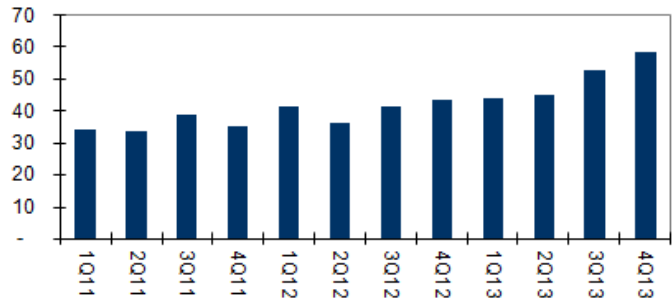


Fig 3. Market Data Revenue

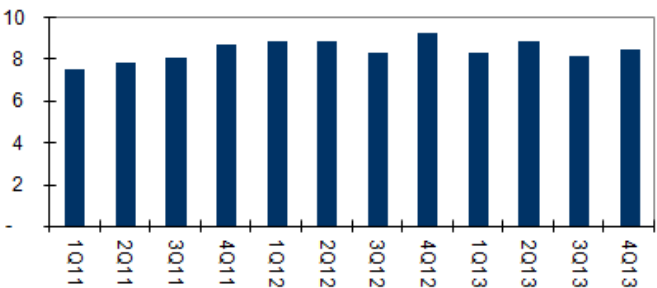


Fig 4. Member services and connectivity

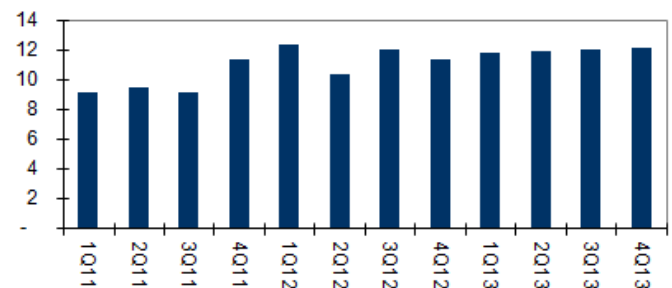


Fig 5. Depository services

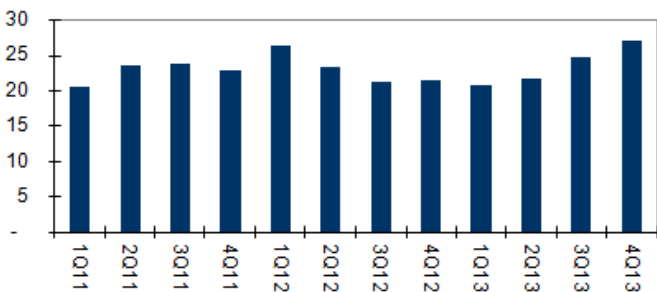


Fig 6. Issuer services

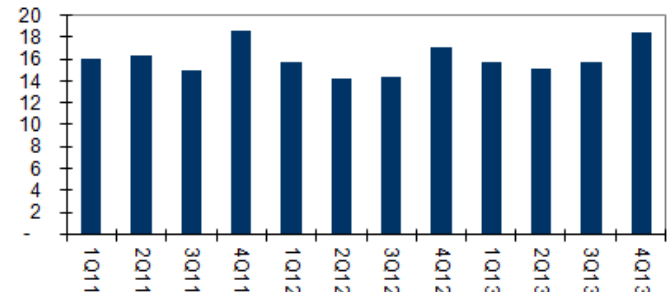


Fig 7. Other revenue

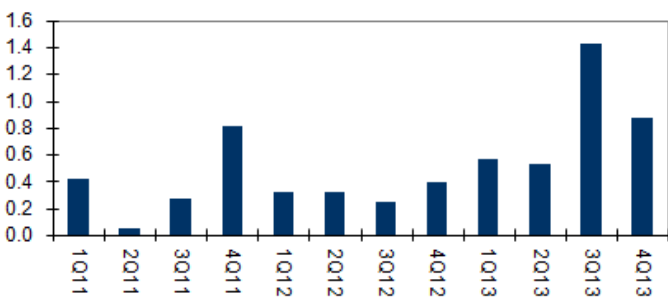


Fig 8. Total revenue

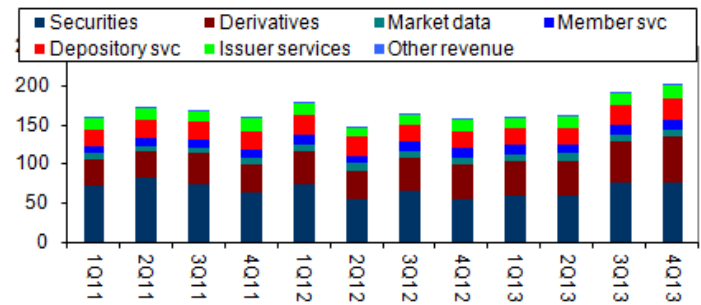


Fig 9. Total revenue - Less Securities

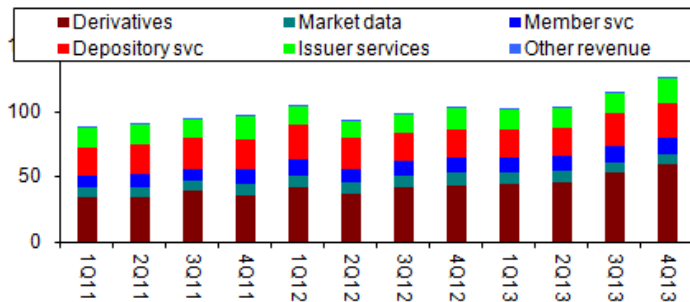


Fig 10. Total revenue - Less Securities and Derivatives

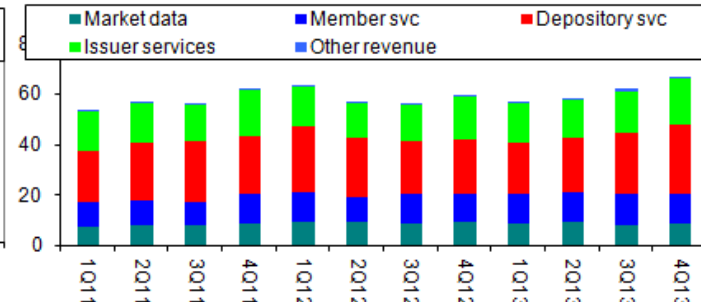


Fig 11. Operating Revenue and NPAT

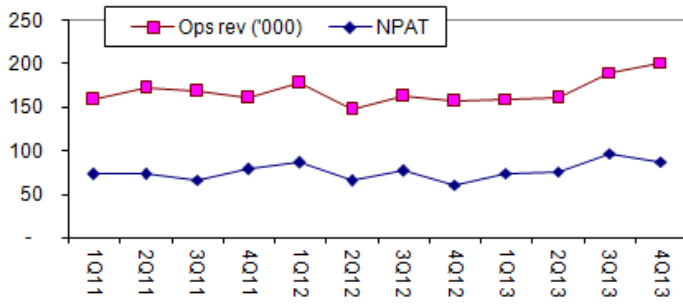


Fig 12. 4Q13 to date SDAV (\$ M) vs Price

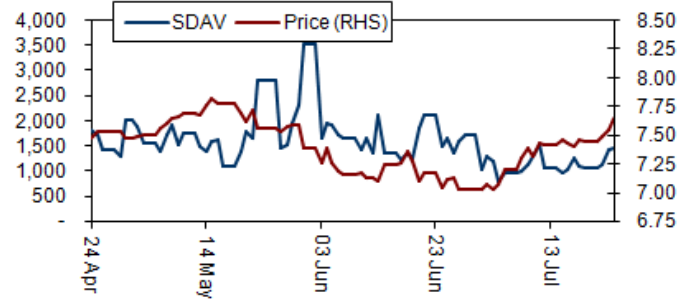


Fig 13. 1/2 Yr Price Earnings Ratio (TTM)

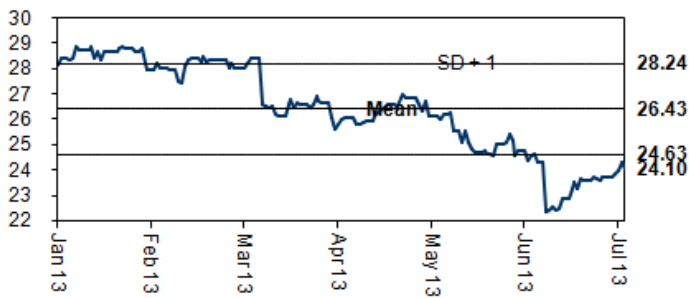
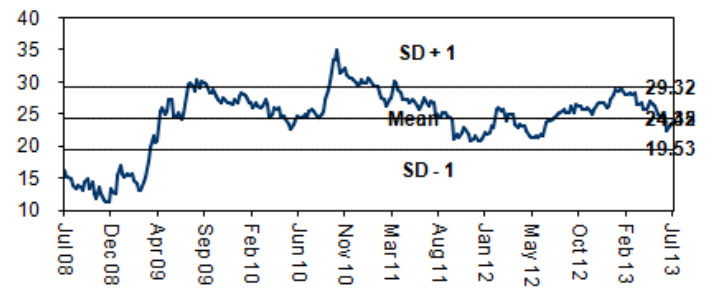


Fig 14. 5 yr Price Earnings Ratio (TTM)



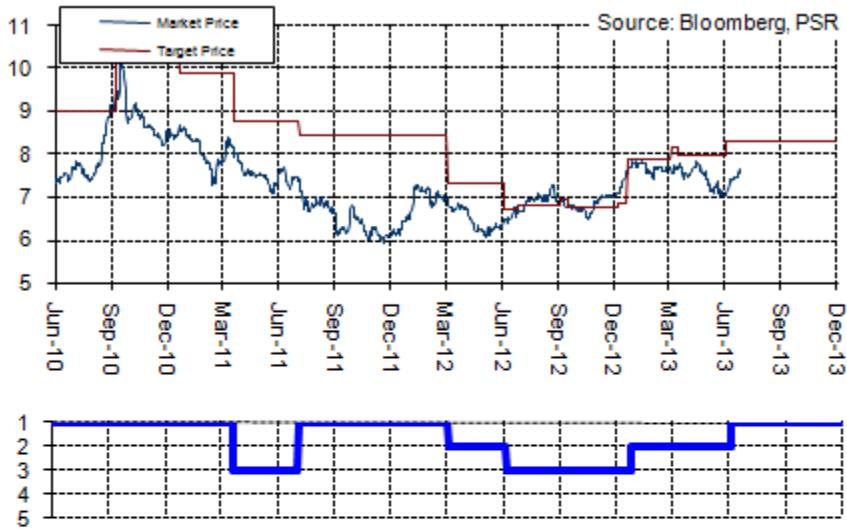
FYE Jun	FY11	FY12	FY13	FY14F	FY15F
Valuation Ratios					
P/E (X), adj.	25.9	26.6	23.1	22.0	20.8
P/B (X)	9.8	9.7	9.1	8.5	8.0
Dividend Yield (%)	3.6%	3.6%	3.7%	4.0%	4.2%
Per share data (SGD)					
EPS, reported (cents)	27.6	27.3	31.4	34.4	36.3
EPS, adj. (cents)	29.2	28.5	32.8	34.4	36.3
DPS (cents)	27.0	27.0	28.0	30.0	32.0
BVPS (cents)	76.9	77.7	82.9	89.2	94.7
Growth & Margins (%)					
Growth					
Revenue	3.3%	-1.9%	10.4%	5.8%	3.9%
Net Income, adj.	-1.9%	-2.5%	15.5%	4.8%	5.6%
Margins					
Net profit margin	44.5%	44.6%	46.6%	48.3%	49.1%
Core profit margin	47.1%	46.5%	48.7%	48.3%	49.1%
Key Ratios					
ROE (%)	37.8%	36.7%	40.8%	39.9%	39.4%
ROA (%)	18.9%	16.7%	19.9%	19.7%	19.5%
Dividend Payout ratio	92.4%	94.9%	85.4%	87.4%	88.3%
Cost to Income	43.5%	43.8%	42.1%	42.5%	41.5%
Income Statement (SGD mn)					
Securities	289	248	270	288	309
Derivatives	142	163	201	217	217
Market data	32	35	34	33	34
Member services and connectivity	39	47	48	50	52
Depository services	91	91	94	98	101
Issuer services	66	62	65	68	70
Other revenue	2	1	3	3	3
Operating revenue	661	648	715	757	786
Staff	107	106	123	134	137
Technology	108	104	102	110	111
Processing and royalties	27	28	27	29	30
Premises	18	17	18	18	19
Professional fees	10	13	14	12	12
Others	17	16	18	18	18
Operating expenses	287	284	301	322	326
Operating profit	374	364	414	435	459
Other gains/(losses)	(15)	(6)	(10)	5	5
Associates & JVs	(3)	(3)	4	4	4
Profit Before Tax	356	355	408	443	468
Taxation	(61)	(64)	(72)	(76)	(80)
Net Income, reported	295	292	336	368	388
Net Income, adj.	312	304	351	368	388

Source: PSR

FYE Jun	FY11	FY12	FY13	FY14F	FY15F
Balance Sheet (SGD mn)					
Cash and cash equivalents	693	698	763	742	807
Trade and other receivables	947	779	757	908	943
Others	31	35	60	60	60
Total current assets	1,671	1,512	1,580	1,710	1,810
Financial assets, available-for-sale	73	66	51	51	51
Property, plant and equipment	30	26	24	17	12
Software	118	119	112	131	125
Investments in joint venture	4	0	0	0	0
Investments in associated company	5	6	27	31	36
Deferred tax assets	0	0	0	0	0
Others	0	0	0	0	0
Total non-current assets	230	217	215	231	224
Total Assets	1,901	1,729	1,794	1,941	2,034
Trade and other payables	982	796	783	863	896
Taxation	66	70	92	92	92
Provisions	8	7	7	7	7
Others	0	0	1	1	1
Total current liabilities	1,056	874	884	963	996
Deferred tax liabilities	12	16	15	15	15
Total non-current liabilities	12	16	15	15	15
Total Liabilities	1,068	890	898	978	1,011
Share capital	420	423	426	426	426
Treasury shares	(31)	(26)	(20)	(20)	(20)
Derivatives clearing fund reserve	34	34	34	34	34
Securities clearing fund reserve	25	25	25	25	25
Retained profits	201	205	241	287	333
Proposed dividends	160	160	171	193	206
Others	15	13	11	11	11
Shareholder Equity	824	833	889	956	1,015
Cashflow Statements (SGD mn)					
CFO					
PBT	356	355	408	443	468
Adjustments	44	53	56	20	30
Cash from ops before WC changes	399	408	464	464	498
WC changes	5	(9)	6	(72)	(2)
Cash generated from ops	404	399	470	391	496
Taxes paid, net	(55)	(57)	(52)	(76)	(80)
Cashflow from ops	349	342	419	316	416
Cashflow from investments	(33)	(45)	(40)	(37)	(23)
Cashflow from financing	(295)	(293)	(314)	(300)	(330)
Net change in cash	20	5	65	(21)	64
CCE, end	545	548	613	592	657

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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