

Singapore Exchange Limited

Buffeted by equity rout but long term growth intact

SINGAPORE | FINANCE | UPDATE (CHANGE OF ANALYST)

- SGX has proposed to acquire The Baltic Exchange
- Could strengthen their market position as a purveyor of market data
- Maintain “**Accumulate**” with lower TP at S\$8.28

What news?

Possible acquisition of The Baltic Exchange. While London Stock Exchange and Deutsche Boerse are in negotiations to create Europe’s biggest exchange with a combined business worth of more than £20 bn. SGX has submitted a non-binding bid for the acquisition of The Baltic Exchange. The discussions for this acquisition are still preliminary. The Baltic Exchange’s main source of revenue is from membership subscriptions and member access to freight market information. We view this as complimentary to SGX’s initiative to strengthen their market position as a purveyor of market data.

Building on licence and service Fees. Baltex is Baltic Exchange’s regulated trading venue for dry FFA block futures. Though Baltex as a venue for presenting block futures was rolled out in December 2014, it has already represented 40% of all dry FFA volume. But we view that Baltex isn’t the crown jewel in this potential acquisition. 2015 Turnover for Baltic was £6 mn of which £4.8 mn was from membership activities, the other £1.2 mn was from property. Membership subscription and member access to freight market information alone was £2.6 mn. Other membership activities include training and legal matters. Evidently, Baltex offers a value proposition for SGX in the segment of market data and connectivity as SGX takes on a front footed initiative to drive growth from value added services. To be sure, Baltex is important because Baltic is paid information licence fees by major clearing houses based on FFA volumes.

Baltic Exchange’s Digital Initiative and Membership Growth. Baltic Exchange’s online sales of information by direct subscription was 0.35mn Gbp in 2015. We view that SGX’s digital infrastructure could add synergy to this initiative and use its clout to grow membership. Aside from the LME, SGX is competing against CME, ICE and Platts for the acquisition.

How much do its cost?

Market is estimated the acquisition could worth some £84 mn (or S\$117 mn), this translated to 63x FY15 PER or 3.2x PBR. We view this price tag is a bit pricey on Baltic’s earnings but look reasonable on book valuation (excluding its £15.5 mn investment fixed asset, PBR will be around 7.8x). After S\$207 mn cash set aside for SGX-DC’s clearing fund, as of end December 2015, SGX cash and cash equivalents of S\$512 mn with zero gearing.

Investment Actions

Maintain “**Accumulate**” with lower new target price of S\$8.28, based on its 24.5x average 5-year historical PER. Potential catalysts including the market trading sentiments is improving sequentially, Jan-16 securities daily average value (SDAV) have increased 50% mom to S\$1.2 bn as compare to S\$0.9 bn in CY4Q15 and S\$1.1 bn in CY15.

3 March 2016

Accumulate (Maintain)

LAST DONE PRICE	SGD 7.38
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.28
TOTAL RETURN	16.5%

COMPANY DATA

O/S SHARES (MN) :	1071
MARKET CAP (USD mn / SGD mn) :	5631/ 7902
52 - WK HI/LO (SGD) :	8.8 / 6.61
3M Average Daily T/O (mn) :	2.20

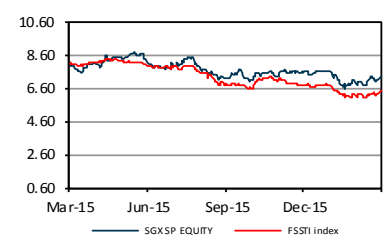
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.4%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	4.7	(3.6)	(7.3)
STI RETURN	3.16	(6.13)	(18.40)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 13	FY 14	FY 15	FY 16 F
Revenue	681	652	742	824
EBITDA (adj.)	421	382	423	483
NPAT (adj.)	302	285	312	362
EPS (S Cents)	314	30.0	32.6	33.8
PER, x (adj.)	24.2	23.2	24.0	218
P/BV, x	9.7	8.4	9.1	8.1
DPS (S Cents)	28.0	28.0	28.0	32.0
Div Yield, %	4%	4%	4%	4%
ROE, %	35%	32%	33%	36%

Source: Company Data, PSR est.

Valuation Method

24.5x 5-year historical PER

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2Q16 Financial Review

Results at a glance

(SGD mn)	2Q16	2Q15	yoy	1Q16	qoq	Comments
Securities	46.6	51.7	-10%	55.9	-17%	SDAV decreased 11% yoy to S\$0.93bn Equity contract declined by 2% yoy, slightly offset by commodities
Derivatives	77.6	76.4	1%	90.9	-15%	contract
Others	70.4	67.0	5%	72.8	-3%	Led by Depositary Services (+14% yoy)
Total Revenue	194.6	195.1	0%	219.6	-11%	
Opex	97.1	93.5	4%	102.3	-5%	Higher staff, technology, and processing and royalties costs
Net Income	83.7	86.6	-3%	99.3	-16%	

Source: Company, Phillip Securities Research (Singapore)

How do we view this?

Securities business impacted by equity market rout. Securities revenue fell 9.8% yoy with SDAV down 11% yoy to S\$0.93bn. Average clearing fee was down from 2.00bps in 2Q15 to 2.93bps in 2Q16 on the back of a dip in turnover velocity (-2.8% yoy) from 36% in 2Q15 to 35% in 2Q16. We view this is a temporary weakness and 3Q16 would likely see an uptick in trading activity from bargain hunting.

Derivatives revenue up and still key driver of growth. Derivatives revenue up 1.5% yoy though contracts volume fell from 40.0mn in 1Q16 to 39.3mn in 2Q16 owing to decline in volumes in Japan Nikkei 225 futures offset by an increase of 121% in Iron Ore volumes during the same period. Average yield per contract increased to S\$1.28 (2Q15: S\$1.30).

Connecting with Taiwan. TWSE subsidiary Global Link Securities is joining the SGX as a remote trading member, allowing member brokers to directly trade SGX-listed securities through Global Link in the second quarter this year. This will make such international trades more efficient and cost-effective for Taiwan investors. We expect a boost in liquidity in markets from this initiative.

5-year historical average PE band



Fig 1. Securities Revenue (\$M)

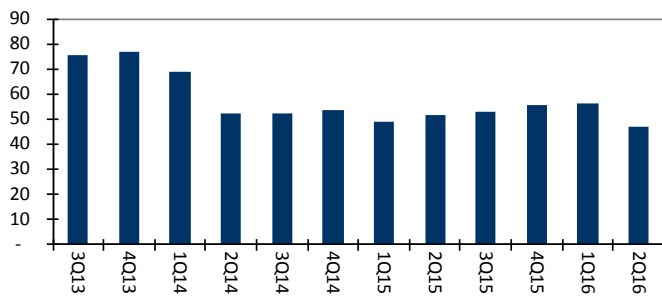


Fig 2. Derivatives Revenue (\$M)

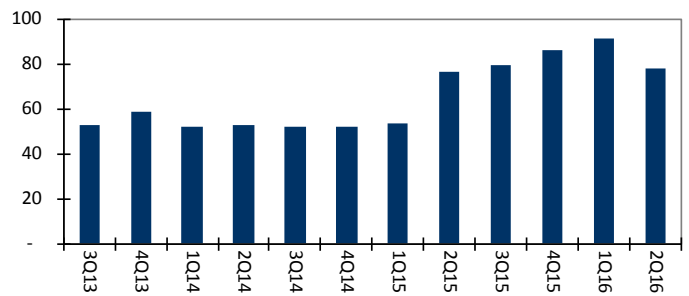


Fig 3. Market Data Revenue (\$M)

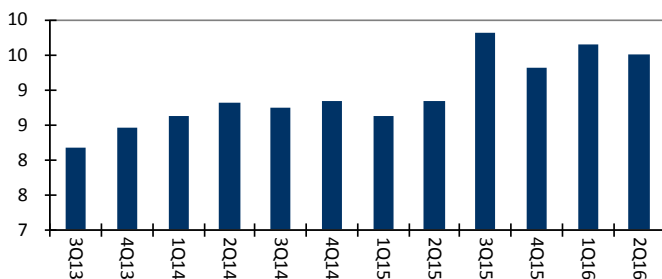


Fig 4. Member services and connectivity (\$M)

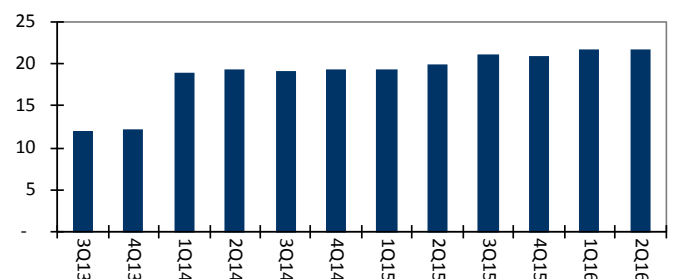


Fig 5. Depository services (\$M)

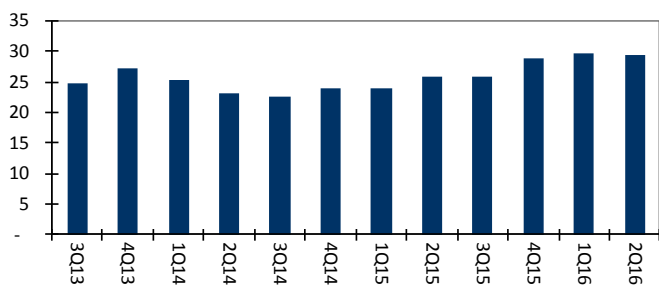


Fig 6. Issuer services (\$M)

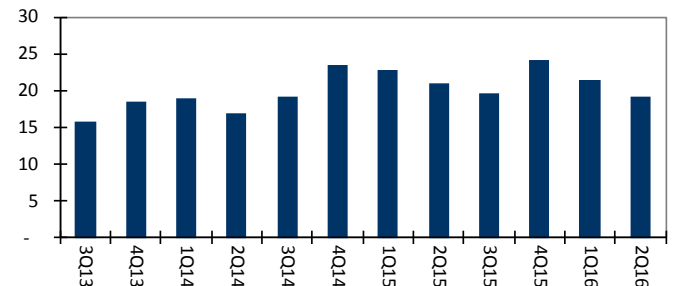


Fig 7. Other revenue (\$M)

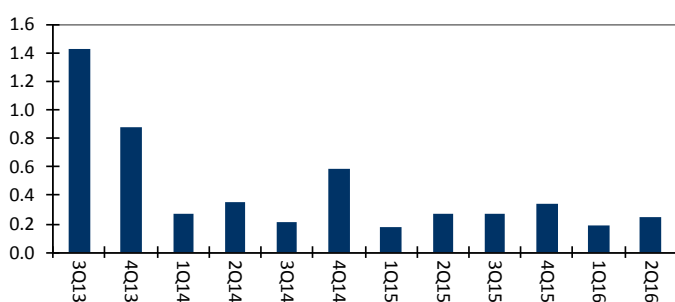


Fig 8. Total revenue (\$M)

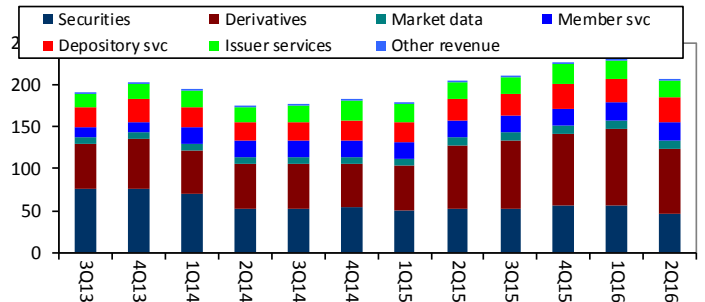


Fig 9. Total revenue - Less Securities (\$M)

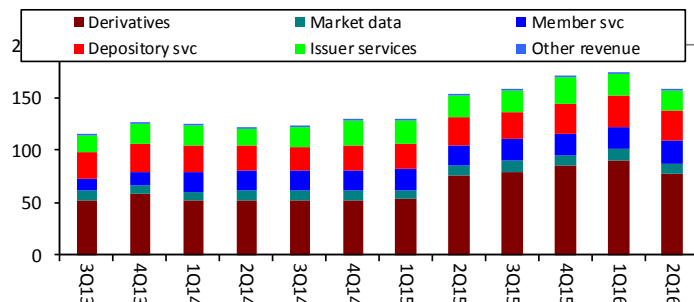
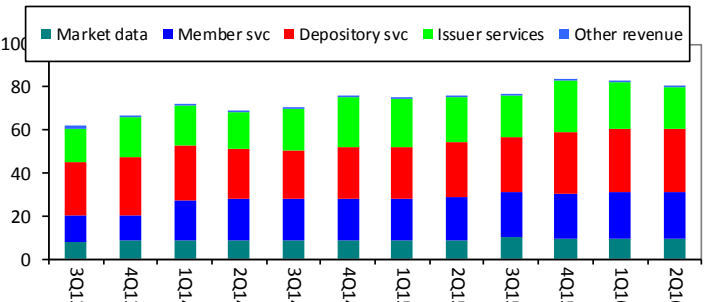


Fig 10. Total revenue - Less Securities and Derivatives (\$M)



Financials

Income Statement

Y/E Jun, SGD mn	FY13	FY14	FY15	FY16e	FY17e
Securities	270	227	209	191	229
Derivatives	201	209	296	341	406
Others	211	216	237	292	310
Operating revenue	681	652	742	824	945
Operating expenses	301	315	377	401	468
Operating profit	380	337	366	423	477
Other gains/(losses)	(10)	5	7	8	9
Associates & JVs	4	2	2	1	2
Profit Before Tax	374	344	375	432	488
Taxation	(72)	(59)	(63)	(70)	(78)
Net Income, reported	302	285	312	362	410
Net Income, adj.	302	285	312	362	410

Per share data (SGD Cents)

Y/E Jun	FY13	FY14	FY15	FY16e	FY17e
EPS, reported	31.43	29.96	32.56	33.78	38.27
DPS	28.00	28.00	28.00	32.00	32.00
BVPS	77.99	83.11	86.20	91.20	94.17

Cash Flow

Y/E Jun, SGD mn	FY13	FY14	FY15	FY16e	FY17e
CFO					
Profit before tax	404	377	410	431	486
Depreciation & Amortisation	40	46	57	60	58
WC changes	6	5	14	(133)	(6)
Others	19	6	11	1	2
Cash generated from ops	470	433	493	360	539
Tax paid	(52)	(75)	(64)	(70)	(78)
Cashflow from ops	419	359	429	289	462
CFI					
CAPEX, net	(28)	(72)	(82)	(75)	(80)
Others	(12)	7	(13)	8	10
Cashflow from investments	(40)	(65)	(95)	(66)	(70)
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	(289)	(300)	(300)	(332)	(343)
Others	(25)	0	(8)	0	0
Cashflow from financing	(314)	(300)	(308)	(332)	(343)
Net change in cash	65	(6)	26	(109)	49
CCE, end	763	757	790	681	732

Balance Sheet

Y/E Jun, SGD mn	FY13	FY14	FY15	FY16e	FY17e
ASSETS					
PPE	24	61	61	62	60
Others	191	190	237	244	249
Total non-current assets	215	252	298	306	309
Accounts receivables	757	572	654	534	642
Cash	763	757	790	681	732
Securities clearing funds	60	60	60	60	60
Others	0	0	0	0	0
Total current assets	1,580	1,389	1,504	1,275	1,434
Total Assets	1,794	1,641	1,802	1,581	1,743
LIABILITIES					
Accounts payables	783	616	718	464	560
Short term loans	0	0	0	0	0
Others	100	83	86	89	89
Total current liabilities	884	699	805	553	649
Long term loans	0	0	0	0	0
Others	22	20	21	19	19
Total non-current liabilities	22	20	21	19	19
Total Liabilities	906	719	825	572	668
EQUITY					
Non-controlling interests	0	0	0	0	0
Shareholder Equity	889	922	976	1,009	1,076

Valuation Ratios

Y/E Jun	FY13	FY14	FY15	FY16e	FY17e
P/E (X), adj.	24.2	23.2	24.0	21.8	19.3
P/B (X)	9.7	8.4	9.1	8.1	7.8
EV/EBITDA (X), adj.	11.3	10.7	10.5	8.9	7.9
Dividend Yield (%)	3.7%	4.0%	3.6%	4.3%	4.3%
Growth & Margins (%)					
Growth					
Revenue	11.2%	-4.3%	13.9%	10.9%	14.8%
EBITDA	20.5%	3.9%	41.7%	15.2%	19.3%
EBIT	11.2%	-4.3%	13.9%	10.9%	14.8%
Net profit, adj.	17.8%	-5.5%	9.3%	15.9%	13.3%
Margins					
EBITDA margin	61.8%	58.6%	57.0%	58.7%	56.5%
EBIT margin	55.8%	51.6%	49.3%	51.3%	50.5%
Net profit margin	44.3%	43.8%	42.0%	43.9%	43.4%
Key Ratios					
ROE (%)	35.1%	31.5%	32.9%	36.4%	39.3%
ROA (%)	17.1%	16.6%	18.1%	21.4%	24.7%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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