

Singapore Exchange Limited

Seasonally lower costs provide respite

SINGAPORE | FINANCE | RESULTS

Highlights

- Total revenue declined 13.1% y-o-y to S\$190.8mn and PATMI declined 16.3% y-o-y to S\$83.1mn
- Operating costs declined 8.4% y-o-y owing to seasonal costs savings
- Interim dividend of 5 cents per share (unchanged) proposed.
- **Maintain "Accumulate" with lower TP of S\$7.69**

Results at a glance

(SGD mn)	1Q17	1Q16	y-o-y	4Q16	q-o-q	Comments
Securities	47.1	55.9	-16%	47.6	-1%	Average clearing fee unchanged at 2.89bps y-o-y. SDAV decreased 19% y-o-y
Derivatives	70.8	90.9	-22%	74.5	-5%	Decline in China A50 and Nikkei 225 volumes
Others	72.9	72.8	0%	76.0	-4%	Supported by IPO and Bond Listings and growth in Colocation Services
Total Revenue	190.8	219.6	-13%	198.1	-4%	
Opex	93.7	102.3	-8%	106.4	-12%	Seasonally lower Dep. Costs, lower marketing costs and lower Staff Variable Bonus
Net Income	83.1	99.3	-16%	76.8	8%	

Source: Company, Phillip Securities Research (Singapore)

Financial highlights and how we view it

Equities and Fixed income business dragged down by low SDAV. Securities Clearing declined 16% y-o-y due to Securities Daily Average Volume (SDAV) declining 19% y-o-y to S\$0.99bn. Clearing fees remained unchanged y-o-y at 2.89bps. Issuer Services segment was supported by 8 new listings and 139 new bond issues. The decline SDAV was attributed to the lower levels of market activities due to economic and political uncertainties and exacerbated by the 14th July 2016 securities market shutdown. A near term catalyst will be the RMB initiatives announced by MAS in November 2015. SGX may benefit from companies from Chongqing, Suzhou and Tianjin to issue RMB bonds in Singapore and fully repatriate the proceeds raised.

Derivatives volume declined 24% y-o-y. China A50 volume declined 44% y-o-y, Nifty 50 volume declined 5% and Nikkei 225 declined 30%. The decline in volumes was due change in investor sentiment but not loss of market share.

Cost impact. In our previous report, we highlighted the need for SGX to focus strongly on costs management to support margins during weak business cycles. But we do not see convincing evidence of structural measures to cut costs. Expenses in 1QFY09/17 were seasonally lower than other quarters because of lower depreciation costs resulting from the cycle of technology capital expenditures and variable bonus decreased 29% y-o-y from S\$12mn to S\$8.5mn in line with declining revenue. Management's FY17e guidance for operating expense of S\$420mn to S\$430mn is similar to our previous estimates of S\$429mn which implies no further measures to improve to cost cutting. We estimate FY17e net profit margin to be at c.41%, lower than FY16's 42.7%.

Investment Actions

We have lowered our FY17e revenue from S\$858mn to S\$817mn because of expectations of low trading volumes arising from a weak market sentiment. We assume that the final variable dividend will revert to S\$0.12 by FY18e. We have also updated the PER in the valuation method to 24.3x, previously 24.5x. **Maintain "Accumulate" with lower TP of S\$7.69** because inasmuch as we do not see any margin boost from costs savings, the quality its dividend should support the share price.

20 October 2016

Accumulate (Maintain)

LAST DONE PRICE	SGD 7.22
FORECAST DIV	SGD 0.28
TARGET PRICE	SGD 7.69
TOTAL RETURN	10.3%

COMPANY DATA

O/S SHARES (MN) :	1,071
MARKET CAP (USD mn / SGD mn) :	5571/ 7734
52 - WK HI/LO (SGD) :	8.05 / 6.61
3M Average Daily T/O (mn) :	187

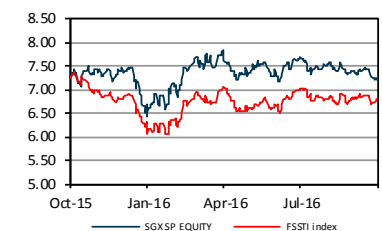
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.4%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(2.3)	(5.6)	(0.3)
STIRETURN	(0.22)	(0.92)	(2.26)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 16	FY 17F	FY 18F	FY 19F
Revenue	818	817	903	935
EBITDA (adj.)	469	448	488	506
NPAT (adj.)	349	338	374	389
EPS (S Cents)	32.6	316	35.0	36.3
PER, x (adj.)	22.2	22.8	20.6	19.9
P/BV, x	7.9	7.8	7.6	7.1
DPS (S Cents)	28.0	28.0	32.0	32.0
Div Yield, %	4%	4%	4%	4%
ROE, %	36%	34%	35%	35%

Source: Company Data, PSR est.

Valuation Method

24.3x 5-year historical PER

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Fig 1. Securities Revenue (\$mn)

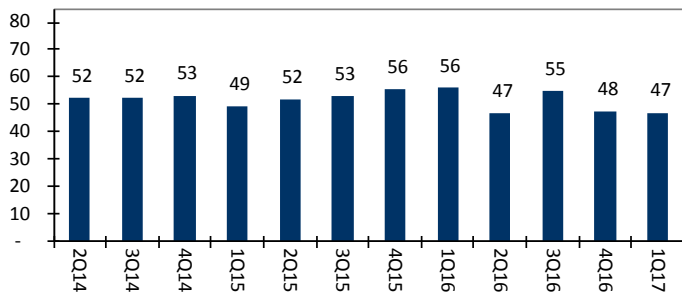


Fig 2. Derivatives Revenue (\$mn)

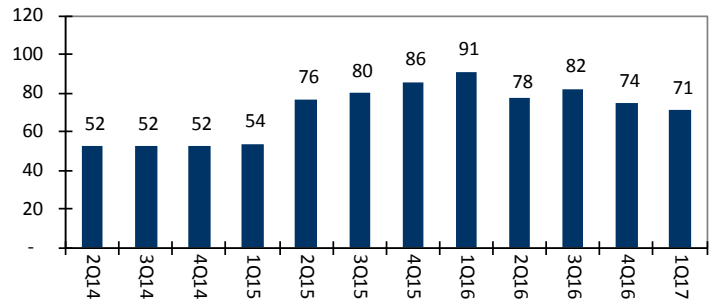


Fig 3. Post Trade services (\$mn)

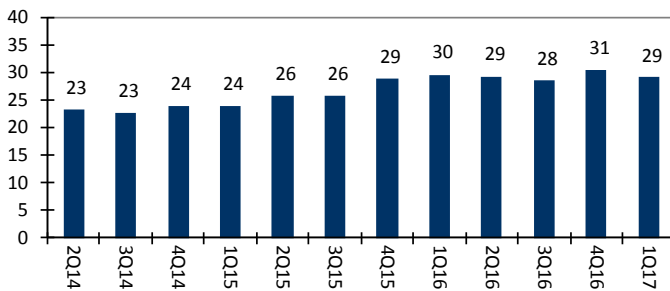


Fig 4. Member services and connectivity (\$mn)

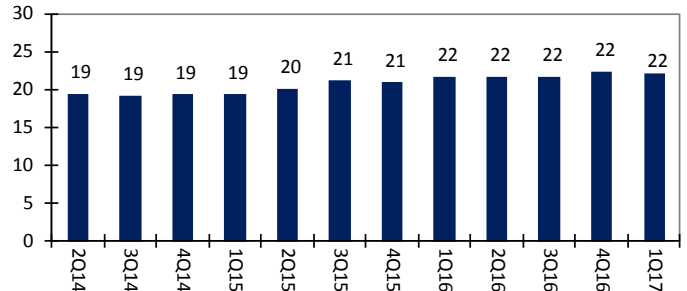


Fig 5. Issuer services (\$mn)

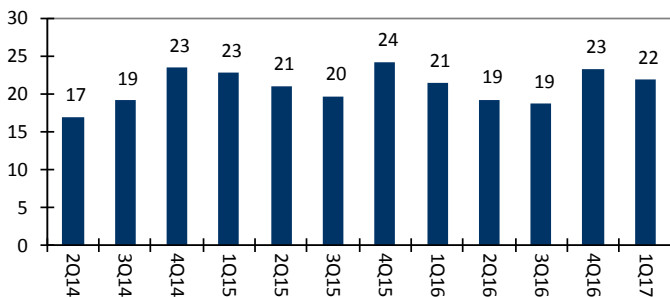


Fig 6. Total revenue (\$mn)

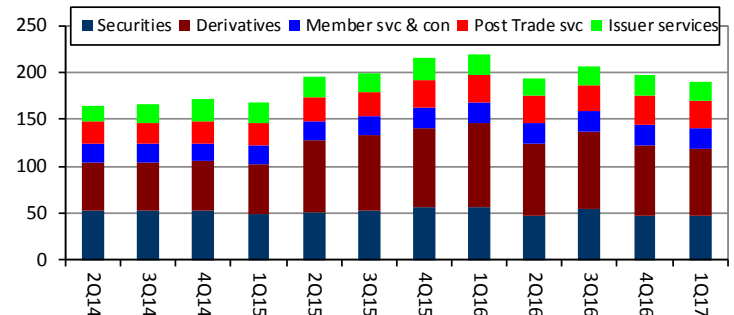


Fig 7. Total Revenue Composition (%)

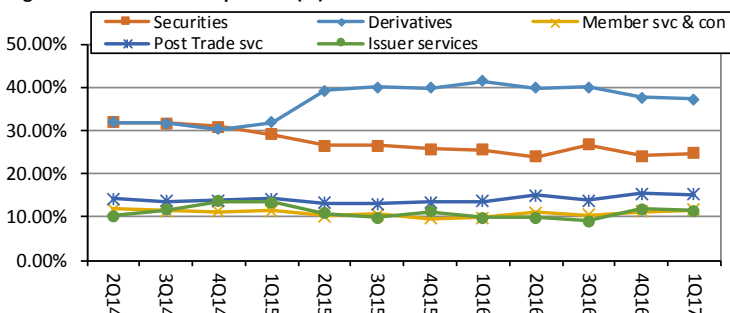


Fig 8. Sub Business Unit Main Drivers (\$mn)

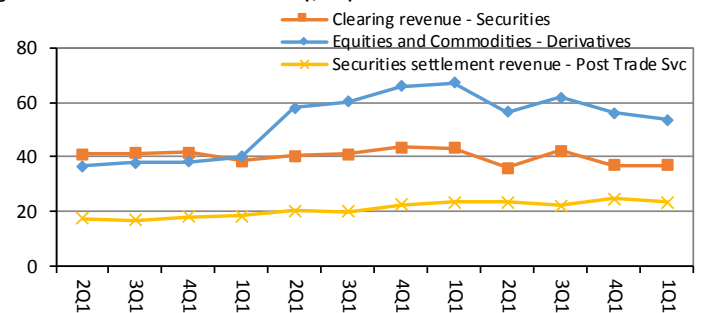


Fig 9. Total Operating Expenses (\$mn)

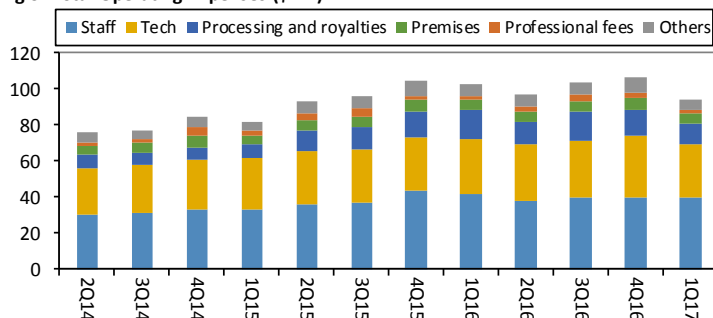
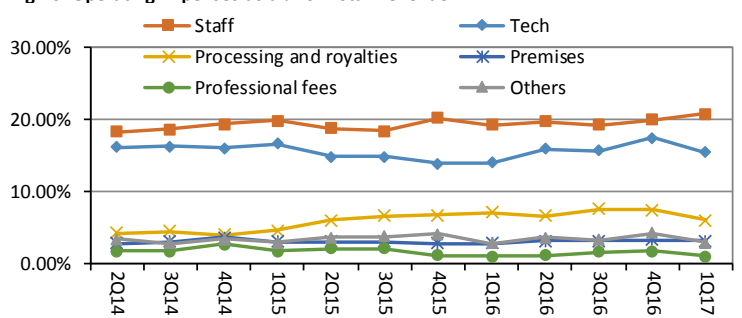


Fig 10. Operating Expenses as a % of Total Revenue



Financials

Income Statement

Y/E Jun, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Securities	209	205	189	201	203
Derivatives	296	325	328	383	394
Others	238	288	300	319	338
Operating revenue	742	818	817	903	935
Operating expenses	377	409	424	470	483
Operating profit	402	409	393	433	452
Other gains/(losses)	8	6	10	10	10
Associates & JVs	2	1	2	2	2
Profit Before Tax	412	416	404	446	464
Taxation	-63	-67	-66	-72	-75
Net Income, reported	349	349	338	374	389
Net Income, adj.	349	349	338	374	389

Per share data (SGD Cents)

Y/E Jun	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	32.59	32.59	31.63	34.97	36.33
DPS	28.00	28.00	28.00	32.00	32.00
BVPS	86.20	91.20	92.46	95.35	102.15

Cash Flow

Y/E Jun, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Profit before tax and Assoc.&JV	410	415	403	444	462
Depreciation & Amortisation	57	60	55	55	54
WC changes	14	17	37	8	9
Others	11	2	1	(0)	(0)
Cash generated from ops	493	494	496	506	525
Tax paid	(64)	(70)	(66)	(72)	(75)
Cashflow from ops	429	423	430	434	450
CFI					
CAPEX, net	(82)	(74)	(74)	(75)	(76)
Others	(13)	11	8	11	10
Cashflow from investments	(95)	(63)	(66)	(64)	(66)
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	(300)	(332)	(300)	(300)	(342)
Others	(8)	(13)	0	0	0
Cashflow from financing	(308)	(345)	(300)	(300)	(342)
Net change in cash	26	15	64	70	42
CCE, end	790	806	871	944	987

Source: Company, Phillip Securities Research (Singapore) Estimates

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

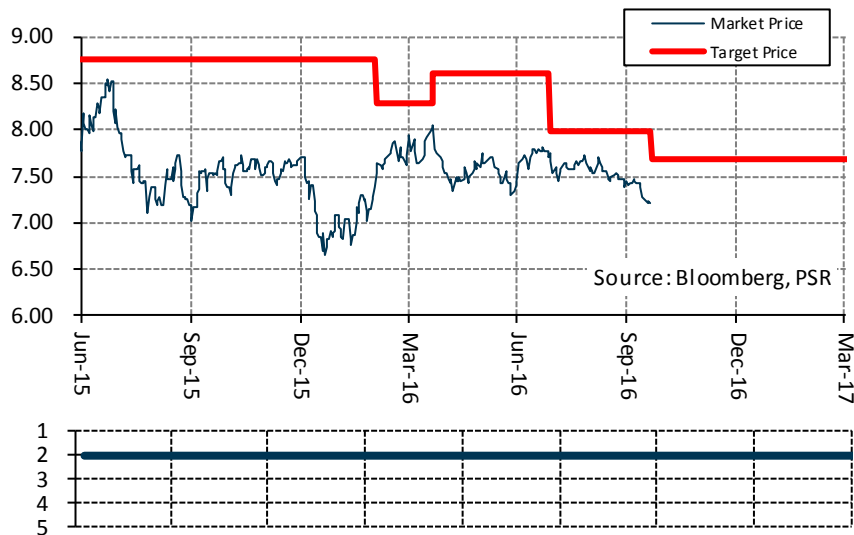
Balance Sheet

Y/E Jun, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
PPE	61	62	60	58	58
Others	237	245	244	250	256
Total non-current assets	298	307	304	308	314
Accounts receivables	654	930	705	821	791
Cash	790	806	871	944	987
Securities clearing funds	60	60	60	60	60
Others	0	3	1	1	1
Total current assets	1,504	1,799	1,637	1,825	1,839
Total Assets	1,802	2,105	1,941	2,133	2,153
LIABILITIES					
Accounts payables	718	1,013	809	926	899
Short term loans	0	0	0	0	0
Others	86	85	87	87	87
Total current liabilities	805	1,098	896	1,013	986
Long term loans	0	0	0	0	0
Others	21	18	18	18	18
Total non-current liabilities	21	18	18	18	18
Total Liabilities	825	1,116	914	1,031	1,004
EQUITY					
Non-controlling interests	0	0	0	0	0
Shareholder Equity	976	990	1,021	1,093	1,139

Valuation Ratios

Y/E Jun	FY15	FY16	FY17e	FY18e	FY19e
P/E (X), adj.	24.0	22.2	22.8	20.6	19.9
P/B (X)	9.1	7.9	7.8	7.6	7.1
EV/EBITDA (X), adj.	10.5	8.8	8.9	8.1	7.8
Dividend Yield (%)	3.6%	3.9%	3.9%	4.4%	4.4%
Growth & Margins (%)					
Growth					
Revenue	13.9%	10.2%	-0.2%	10.6%	3.6%
EBITDA	41.6%	10.0%	0.8%	17.0%	3.0%
EBIT	13.9%	10.2%	-0.2%	10.6%	4.2%
Net profit, adj.	22.3%	0.0%	-3.1%	10.7%	3.9%
Margins					
EBITDA margin	61.9%	57.3%	54.9%	54.1%	54.1%
EBIT margin	54.2%	50.0%	48.1%	48.0%	48.3%
Net profit margin	47.0%	42.7%	41.4%	41.4%	41.6%
Key Ratios					
ROE (%)	36.8%	35.5%	33.6%	35.4%	34.8%
ROA (%)	20.3%	17.9%	16.7%	18.4%	18.1%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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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