

# Singapore Exchange Limited

## Minimum Allocation of Mainboard IPOs to Retail Investors

SINGAPORE | FINANCE | UPDATE

### What is in the news?

SGX has announced that it will mandate all Mainboard IPO companies to allocate at least 5%, or SGD50mn, whichever is lower, of their offer size to retail investors. This mandate is aimed to facilitate greater retail participation in the Singapore's equities market. The new rules on the minimum allocation will be effective 2 May 2017.

### How do we view this?

**Not fulfilling the minimum retail allocation does not preclude a Mainboard IPO.** Though the mandate requires new Mainboard IPO prospects to provision a minimum allocation to retail investors, it does not prevent an IPO from proceeding if there is insufficient retail interest to make up the minimum allocation. Upon IPO, there will be a window period for the companies to ramp up retail vested interest to the minimum level. However, if the minimum level is not met, institutional interest may come in to fill the gap. Currently, the window period to ramp up retail vested interest is not disclosed.

**Singapore household\* interest in Listed Shares on a secular down trend and we do not expect the mandate to move the needle.** We noticed that the quarterly growth rate of Singapore households' allocation to Listed Shares are on a negative trend since 2011 (See Figure 2). Similarly, the percentage of Listed Shares to Total Household Assets have come off from the peak of 7% in 2Q2007 to 4.2% in 4Q2016, a 40 % collapse (Figure 3). Based on past trends, we opine Singapore household allocation to Listed Shares are driven more by confidence brought on by macroeconomic events rather than any regulatory measures.

\*Singapore household units include Singapore citizens, permanent residents, foreigners and unincorporated enterprises (e.g., sole proprietorships).

Figure 1: Singapore Household's Listed Shares by Value



Source: Singstat.gov.sg

9 March 2017

### Accumulate (Maintain)

LAST DONE PRICE	SGD 7.57
FORECAST DIV	SGD 0.28
TARGET PRICE	SGD 7.75
<b>TOTAL RETURN</b>	<b>6.0%</b>

### COMPANY DATA

O/S SHARES (MN) :	1070
MARKET CAP (USD mn / SGD mn) :	5711/ 8102
52 - WK HI/LO (SGD) :	8.05 / 6.96
3M Average Daily T/O (mn) :	175

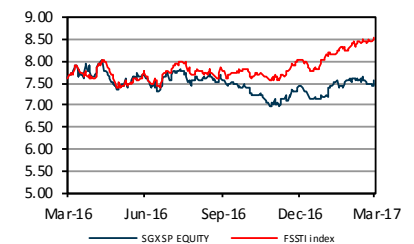
### MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.36%
Japan Exchange Group Inc	4.96%
Vanguard Group Inc	1.66%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.3	3.0	3.8
STIRETURN	2.63	6.77	17.68

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E June	FY 16	FY 17e	FY 18 e	FY 19 e
Revenue (SGD m)	818	814	879	905
EBITDA (SGD m)	469	469	491	495
NPAT (SGD m)	349	347	373	382
EPS (Cents)	32.6	32.4	34.8	35.7
PER, (X)	22.2	22.3	20.7	20.2
P/BV, (X)	7.9	7.8	7.5	7.0
DPS (Cents)	28.0	28.0	32.0	32.0
Div Yield, (%)	4%	4%	4%	4%
ROE, (%)	36%	34%	35%	34%

Source: Company Data, PSR est.

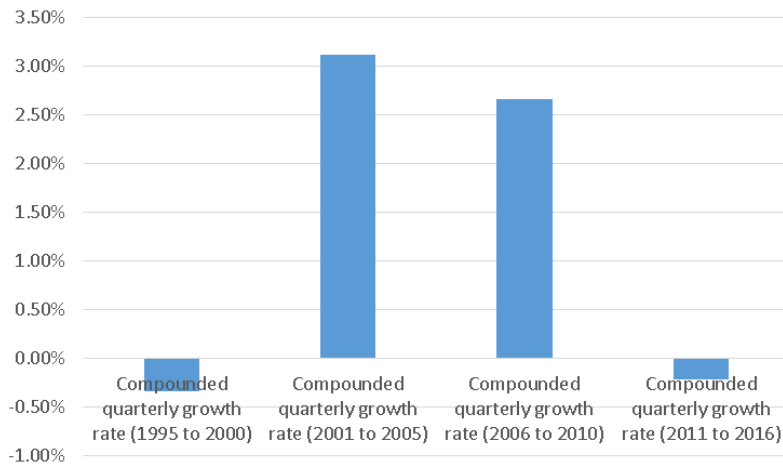
### Valuation Method

23.9x 5-year historical PER

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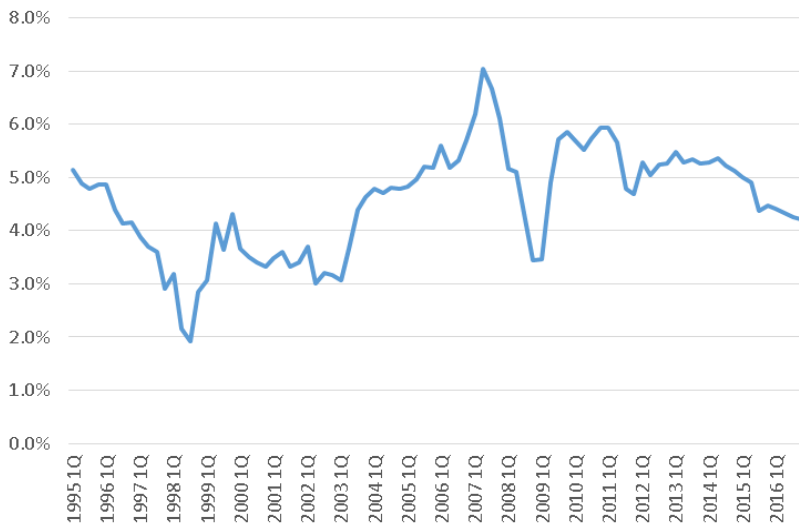
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**Figure 2: Singapore Household's Compounded Quarterly Growth Rates between Selected Periods**



Source: Singstat.gov.sg

**Figure 3: Percentage Component of Singapore Household's Listed Shares to Total Assets**



Source: Singstat.gov.sg

**YTD February 2017 market statistics update.** SGX's securities daily average value (SDAV) for Jan and February 2017 was SGD1.228bn, up 1.07% year-on-year (y-o-y) following an overall risk-on momentum which also saw S&P500 Index up 5.79% year-to-date and Dow Jones Industrial Average Index up 6.43% year-to-date. The SDAV growth is higher than our 3Q17F SDAV forecast of SGD1.13bn. Total Derivatives volume was 12.47 million, up 7% month-on-month (m-o-m) but down 10% y-o-y. SGX's Total Derivatives volume was supported by strong m-o-m growth from Equity Index Futures contracts and Commodities Derivatives contracts. Iron Ore Derivatives volume was 1.31 million, up 28% m-o-m and we attribute the increase to the surge in Chinese imports of key commodities including iron ore during the month of February.

#### Investment Actions

We view that the mandate for minimum allocation of new Mainboard IPOs for retail investors could facilitate more retail participation in equity investing but the main driver would still lie with increased confidence to invest. **Maintain "Accumulate" with TP of S\$7.75.**

## Financials

### Income Statement

Y/E Jun, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Securities	209	205	202	204	203
Derivatives	296	325	311	355	364
Others	238	288	301	320	338
<b>Operating revenue</b>	<b>742</b>	<b>818</b>	<b>814</b>	<b>879</b>	<b>905</b>
Operating expenses	377	409	412	448	462
<b>Operating profit</b>	<b>402</b>	<b>409</b>	<b>402</b>	<b>431</b>	<b>443</b>
Other gains/(losses)	8	6	10	10	10
Associates & JVs	2	1	2	2	2
<b>Profit Before Tax</b>	<b>412</b>	<b>416</b>	<b>413</b>	<b>443</b>	<b>455</b>
Taxation	-63	-67	-67	-71	-73
<b>Net Income, reported</b>	<b>349</b>	<b>349</b>	<b>347</b>	<b>373</b>	<b>382</b>
<b>Net Income, adj.</b>	<b>349</b>	<b>349</b>	<b>347</b>	<b>373</b>	<b>382</b>

### Per share data (SGD Cents)

Y/E Jun	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	32.59	32.59	32.41	34.82	35.73
DPS	28.00	28.00	28.00	32.00	32.00
BVPS	86.20	91.20	92.46	96.51	103.15

### Cash Flow

Y/E Jun, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
<b>Profit before tax and Assoc.&amp;JV</b>	<b>410</b>	<b>415</b>	<b>412</b>	<b>441</b>	<b>453</b>
Depreciation & Amortisation	57	60	67	60	52
WC changes	14	17	2	(3)	14
Others	11	2	(0)	(1)	(1)
Cash generated from ops	493	494	480	498	519
Tax paid	(64)	(70)	(67)	(71)	(73)
<b>Cashflow from ops</b>	<b>429</b>	<b>423</b>	<b>413</b>	<b>427</b>	<b>446</b>
CFI					
CAPEX, net	(82)	(74)	(67)	(71)	(71)
Others	(13)	11	(127)	11	10
<b>Cashflow from investments</b>	<b>(95)</b>	<b>(63)</b>	<b>(194)</b>	<b>(60)</b>	<b>(60)</b>
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	(300)	(332)	(300)	(300)	(342)
Others	(8)	(13)	(3)	0	0
<b>Cashflow from financing</b>	<b>(308)</b>	<b>(345)</b>	<b>(303)</b>	<b>(300)</b>	<b>(342)</b>
<b>Net change in cash</b>	<b>26</b>	<b>15</b>	<b>(83)</b>	<b>67</b>	<b>43</b>
<b>CCE, end</b>	<b>790</b>	<b>806</b>	<b>725</b>	<b>794</b>	<b>839</b>

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
<b>ASSETS</b>					
PPE	61	62	84	64	60
Others	237	245	361	366	372
<b>Total non-current assets</b>	<b>298</b>	<b>307</b>	<b>445</b>	<b>430</b>	<b>432</b>
Accounts receivables	654	930	710	816	782
Cash	790	806	725	794	839
Securities clearing funds	60	60	60	60	60
Others	0	3	0	0	-0
<b>Total current assets</b>	<b>1,504</b>	<b>1,799</b>	<b>1,495</b>	<b>1,670</b>	<b>1,681</b>
<b>Total Assets</b>	<b>1,802</b>	<b>2,105</b>	<b>1,940</b>	<b>2,101</b>	<b>2,114</b>
<b>LIABILITIES</b>					
Accounts payables	718	1,013	788	885	859
Short term loans	0	0	0	0	0
Others	86	85	88	88	88
<b>Total current liabilities</b>	<b>805</b>	<b>1,098</b>	<b>876</b>	<b>973</b>	<b>946</b>
Long term loans	0	0	0	0	0
Others	21	18	30	30	30
<b>Total non-current liabilities</b>	<b>21</b>	<b>18</b>	<b>30</b>	<b>30</b>	<b>30</b>
<b>Total Liabilities</b>	<b>825</b>	<b>1,116</b>	<b>906</b>	<b>1,003</b>	<b>977</b>
<b>EQUITY</b>					
Non-controlling interests	0	0	0	0	0
<b>Shareholder Equity</b>	<b>976</b>	<b>990</b>	<b>1,033</b>	<b>1,104</b>	<b>1,144</b>

### Valuation Ratios

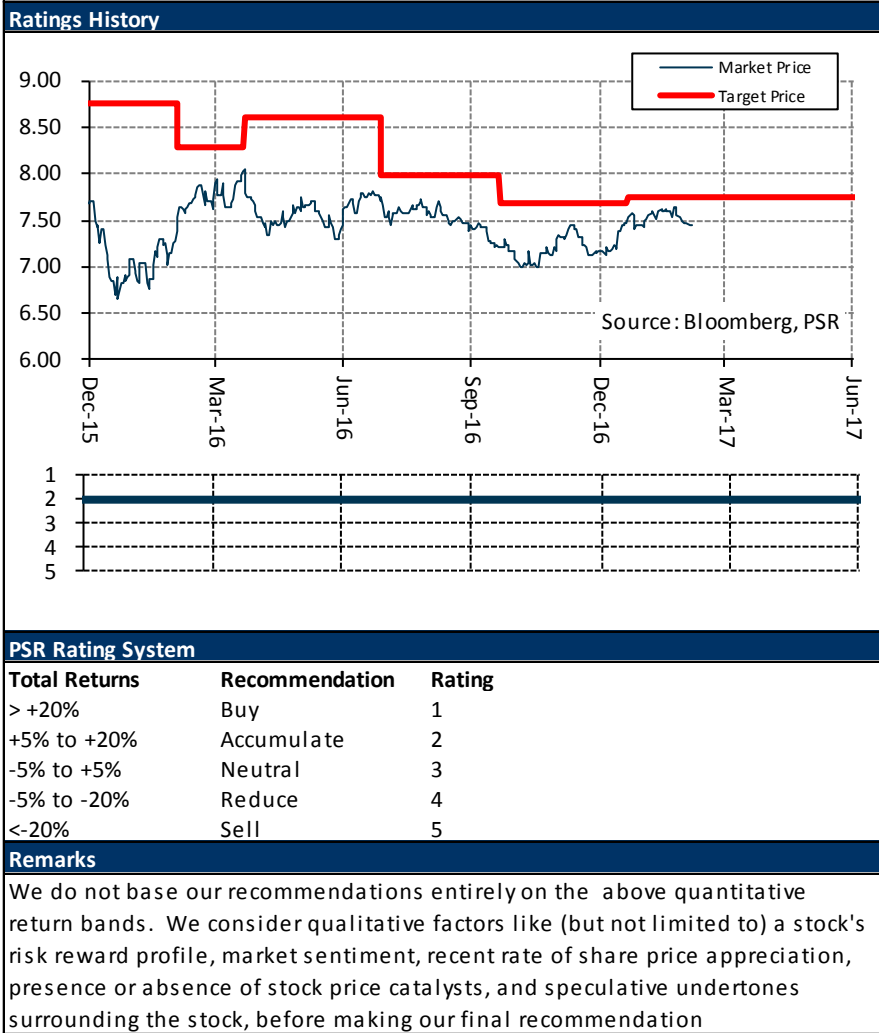
Y/E Jun	FY15	FY16	FY17e	FY18e	FY19e
P/E (X), adj.	24.0	22.2	22.3	20.7	20.2
P/B (X)	9.1	7.9	7.8	7.5	7.0
EV/EBITDA (X), adj.	10.5	8.8	8.8	8.2	8.1
Dividend Yield (%)	3.6%	3.9%	3.9%	4.4%	4.4%

### Growth & Margins (%)

	FY15	FY16	FY17e	FY18e	FY19e
<b>Growth</b>					
Revenue	13.9%	10.2%	-0.5%	8.0%	3.1%
EBITDA	41.6%	10.0%	-4.5%	14.2%	3.3%
EBIT	13.9%	10.2%	-0.5%	8.0%	2.9%
Net profit, adj.	22.3%	0.0%	-0.7%	7.5%	2.6%
<b>Margins</b>					
EBITDA margin	61.9%	57.3%	57.6%	55.9%	54.7%
EBIT margin	54.2%	50.0%	49.4%	49.0%	49.0%
Net profit margin	47.0%	42.7%	42.6%	42.4%	42.2%

### Key Ratios

	FY15	FY16	FY17e	FY18e	FY19e
ROE (%)	36.8%	35.5%	34.3%	34.9%	34.0%
ROA (%)	20.3%	17.9%	17.1%	18.4%	18.1%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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