



Singapore Exchange Limited

Strong Performance as Markets Spur into Action

26 October 2017

SINGAPORE | FINANCE | 1Q18 RESULTS

Highlights

- 1Q18 PATMI was in line with our estimates.
- New IPOs in FY18 expected to be in the high 20s compared to FY17's 22.
- Equity, FX and commodity derivatives volume expected to be strong in FY18.
- Securities clearing fee spreads were down due to higher trading volumes by MMLPs and higher composition of products such as ETF and DLC.
- An interim dividend of 5 cents per share proposed, unchanged YoY.
- **Maintain Accumulate with lower TP of S\$8.31 (previous TP S\$8.39) based on 23.9x historical 5-year average PE ratio.**

Results at a glance

(SGD mn)	1Q18	1Q17	YoY	4Q17	QoQ	Comments
Securities	51.2	47.1	9%	50.5	1%	SDAV increase 18% YoY, avg clearing fee down from 2.89 in 1Q17 to 2.70 in 1Q18.
Derivatives	80.6	70.8	14%	82.1	-2%	Total volumes increased 15% as all key derivative products improved.
Others	72.7	72.9	0%	75.1	-3%	Declining contract processing services revenue.
Total Revenue	204.5	190.8	7%	207.7	-2%	
Opex	98.5	93.7	5%	108.4	-9%	Higher Processing and Royalties expense YoY due to increase in Derivatives traded volume.
Net Income	90.7	83.1	9%	85.2	6%	

Source: Company, PSR

The Positives

+ Securities trading and clearing revenue up 9% YoY to S\$51.2mn due to an 18% YoY increase in SDAV. 1Q18 Traded value in equities which include ordinary shares, REITs and business trusts increased 14% YoY to S\$67.5bn. The traded value in other securities products which include warrants, ETFs, Daily Leveraged Certs (DLC), debt securities and American depository receipts (ADR) increased 82% to S\$5.7bn.

+ Listing revenue up 6% YoY to S\$13mn due to a higher number of new bond listings. 1Q18 had 347 bond listings raising S\$156.1bn compared to 139 listings raising S\$59.4bn in 1Q17.

+ Market Data and Connectivity revenue up 10% YoY to S\$24.2mn, accounting for 12% of total revenue. The increase is due to higher reported data usage and also from continued growth of SGX's colocation services business.

+ Positive Jaw of 2%. Revenue was up 7% and operating expenses was up 5%, an improvement of a flat jaw in FY17.

+ Derivatives revenue increased 14% YoY to S\$80.6mn, accounting for 39% of total revenue. Total volumes increased 15% YoY to S\$46.2mn contracts. All key products: China A50 Index Futures, Nikkei 225 Index Futures, SGX Nifty 50 Futures, USD/CNH futures, INR/USD futures and Iron Ore Futures improved after a weak performance in FY17. Strategy to grow the business further will include new products launches, cross product margin offsets and improvements to product features such as the tighter spread on the INR/USD futures compared to OTC market.

Accumulate (Maintain)

LAST DONE PRICE	SGD 7.57
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.31
TOTAL RETURN	14.0%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1071
MARKET CAP (USD mn / SGD mn) :	5959 / 8108
52 - WK HI/LO (SGD) :	7.82 / 6.96
3M Average Daily T/O (mn) :	157

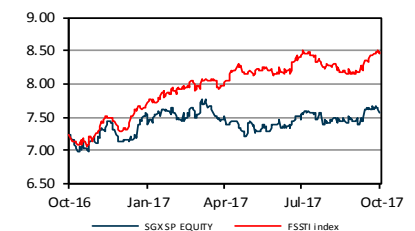
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.34%
Vanguard Gro up Inc	2.1%
Blackrock Fund Advisors	1.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.7	3.4	8.0
STI RETURN	3.59	2.06	20.66

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	818	801	862	880
EBITDA (SGD mn)	469	460	486	486
NPAT (SGD mn)	349	340	372	378
EPS (Cents)	32.6	31.8	34.8	35.3
PER, (X)	22.2	23.8	21.8	21.4
P/BV, (X)	7.9	8.2	7.8	7.3
DPS (Cents)	28.0	28.0	32.0	32.0
Div Yield, (%)	4%	4%	4%	4%
ROE, (%)	36%	34%	35%	34%

Source: Bloomberg, Company, PSR

Valuation Method

23.9x 5-year historical PER

Jeremy Teong (+65 6212 1863)

Investment Analyst

jeremyteong@phillip.com.sg

The Negatives

- **Securities average clearing fee have been declining sequentially.** 1Q18 average clearing fee was 2.70 bps which is lower than FY17's 2.82 bps and FY16's 2.90 bps. The lower average clearing fee was due to increase in trading of warrants, ETFs, recently launched DLCs and higher trading volumes by Market Makers & Liquidity Providers (MMLP) as these market participants generally pay lower clearing fees. We estimate that the percentage value of warrants, ETFs and DLCs against total traded value have been increasing over time from 2% in 2016 to 5% in 2017 and now 7.8% in 1Q18.

- **Post Trade Services down 9% YoY to S\$26.4mn, accounting for 12% of total revenue.** Contract processing revenue declined 58% from S\$3mn a year ago to c.S\$1mn because brokers are migrating to their own systems and no longer need SGX's contract processing services. It is estimated that this revenue stream will cease by early 2018. In the other segment of Post Trade Services, the securities settlement revenue proves to be stable and makes up c.88% of the Post Trade Services revenue. However, we think that this segment appears to be stagnating and would not contribute meaningfully to SGX's growth in FY18.

Outlook

We have increased our FY18e SDAV estimate S\$1.23bn (previous estimate S\$1.16bn) because we expect continued strong growth in ETFs, DLCs and warrants traded volume; and we also expect stronger equities traded volume especially in property and finance counters. We also increase our FY18e total derivatives volume estimate to 199mn contracts (previous estimate 187mn contracts). We expect stronger traction for existing derivatives products as well as higher traded volumes from new product launches in FY18. In the derivatives portfolio, we are most upbeat on the China A50 Equity Index Futures and the USD/CNG Futures following the relaxation of rules in China pertaining to Equity Index Futures trading earlier this year. Both products make up 39% of SGX's derivatives traded volume. FY18e operating expense guidance remains unchanged at the range of S\$425mn to S\$435mn.

Investment Actions

Maintain Accumulate with lower TP of S\$8.31 (previous TP S\$8.39) based on 23.9x historical 5-year average PE ratio. Our lower target price is due to weak revenue growth outlook in Post Trade Services in FY18e and we lowered our revenue expectation for securities clearing fee due to the higher contribution from low margin products.

Fig 1. Securities Revenue (\$mn)

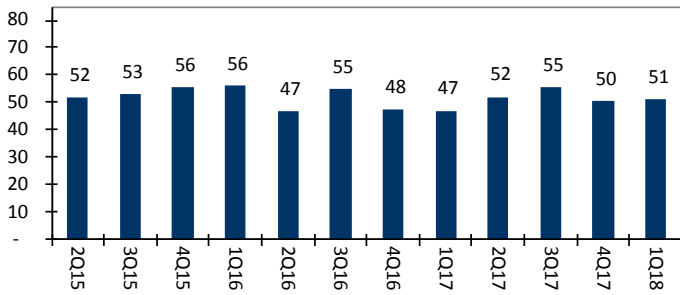


Fig 2. Derivatives Revenue (\$mn)

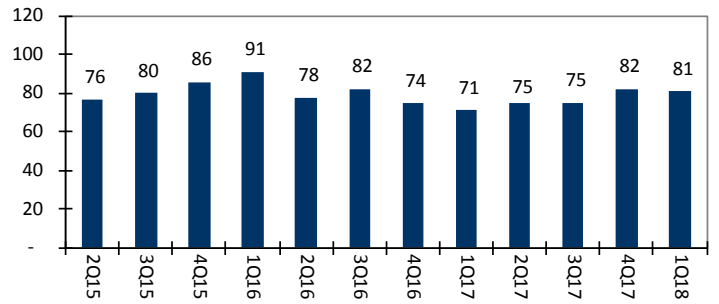


Fig 3. Post Trade services (\$mn)

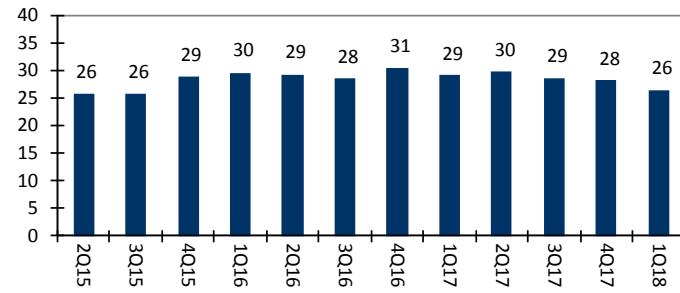


Fig 4. Member services and connectivity (\$mn)

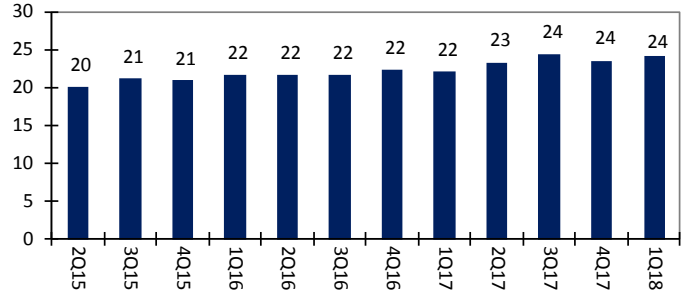


Fig 5. Issuer services (\$mn)

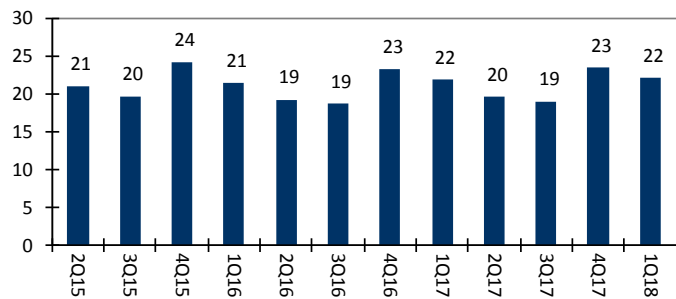


Fig 6. Total Revenue Composition (%)

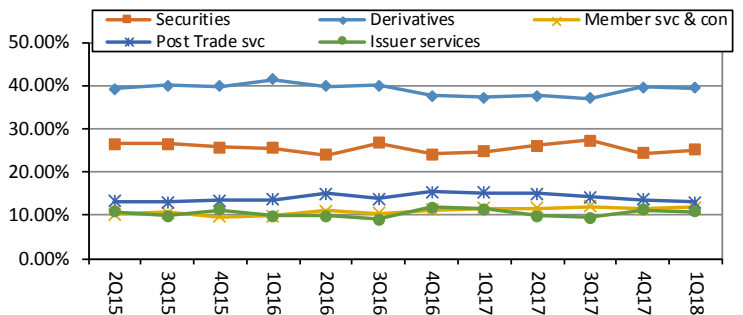


Fig 7. SDAV & DDAV

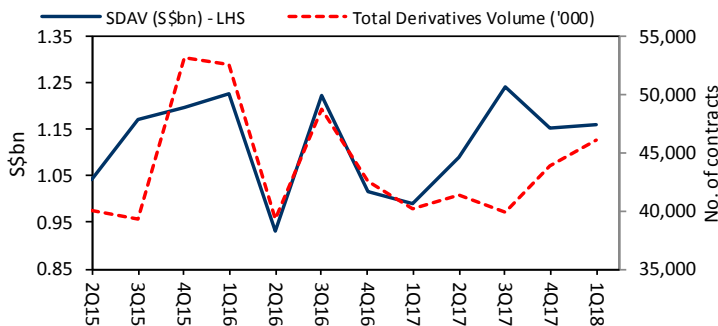


Fig 8. Sub Business Unit Main Drivers (\$mn)

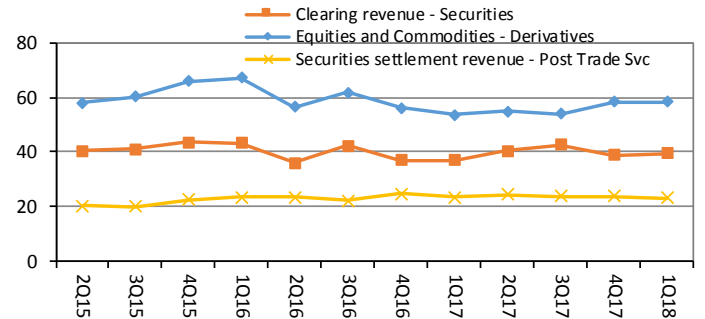


Fig 9. Total Operating Expenses (\$mn)

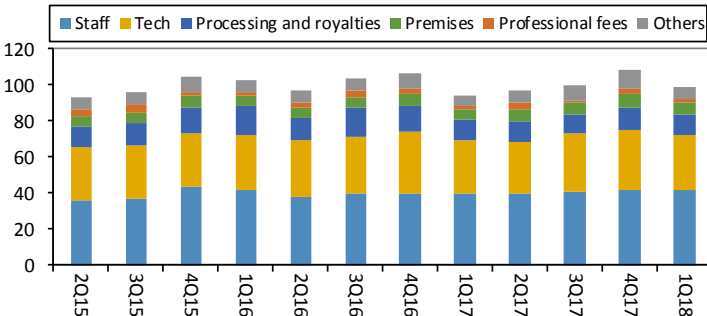
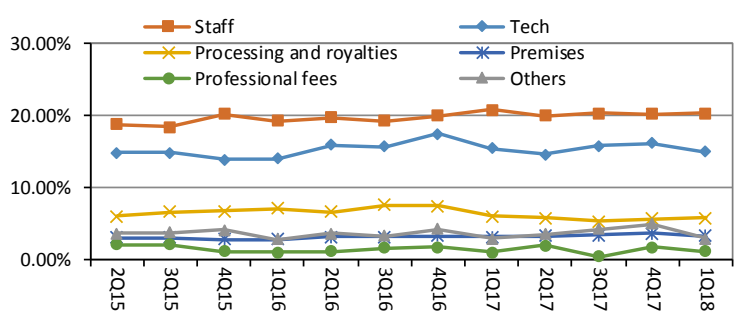


Fig 10. Operating Expenses as a % of Total Revenue



Financials

Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
Securities	205	205	218	206	205
Derivatives	325	303	353	374	381
Others	288	293	291	300	305
Operating revenue	818	801	862	880	892
Operating expenses	409	399	428	437	445
Operating profit	409	402	435	442	447
Other gains/(losses)	6	6	10	10	10
Associates & JVs	1	1	2	2	2
Profit Before Tax	416	409	446	454	458
Taxation	-67	-69	-74	-76	-76
Net Income, reported	349	340	372	378	382
Net Income, adj.	349	340	372	378	382

Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
EPS, reported	32.6	31.8	34.8	35.3	35.7
DPS	28.0	28.0	32.0	32.0	32.0
BVPS	91.2	92.5	96.5	103.3	106.8

Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
CFO					
Profit before tax and Assoc.&JV	415	407	444	452	457
Depreciation & Amortisation	60	58	51	44	44
WC changes	17	(21)	(12)	5	11
Others	2	3	1	(1)	(1)
Cash generated from ops	494	447	484	500	511
Tax paid	(70)	(67)	(74)	(76)	(76)
Cashflow from ops	423	380	411	424	435
CFI					
CAPEX, net	(74)	(60)	(65)	(63)	(60)
Others	11	(87)	10	10	10
Cashflow from investments	(63)	(147)	(55)	(54)	(50)
CFF					
Loans, net of repayments	0	0	0	0	4
Dividends	(332)	(300)	(300)	(342)	(342)
Others	(13)	(9)	0	0	(4)
Cashflow from financing	(345)	(308)	(300)	(342)	(342)
Net change in cash	15	(76)	56	28	42
CCE, end	806	736	791	818	859

Source: Company, PSR

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

Balance Sheet

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
ASSETS					
PPE	62	80	56	59	57
Others	245	348	352	357	363
Total non-current assets	307	429	408	417	420
Accounts receivables	930	815	864	821	835
Cash	806	736	791	818	859
Securities clearing funds	60	60	60	60	60
Others	3	1	1	1	1
Total current assets	1,799	1,613	1,716	1,701	1,756
Total Assets	2,105	2,041	2,124	2,118	2,175
LIABILITIES					
Accounts payables	1,013	892	902	858	875
Short term loans	0	0	0	0	0
Others	85	82	83	83	83
Total current liabilities	1,098	973	984	940	958
Long term loans	0	0	0	0	0
Others	18	35	34	34	34
Total non-current liabilities	18	35	34	34	34
Total Liabilities	1,116	1,009	1,019	975	992
EQUITY					
Non-controlling interests	0	0	0	0	0
Shareholder Equity	990	1,033	1,105	1,143	1,183

Valuation Ratios

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
P/E (X), adj.	22.2	23.8	21.8	21.4	21.2
P/B (X)	7.9	8.2	7.8	7.3	7.1
EV/EBITDA (X), adj.	8.8	9.4	8.9	8.8	8.7
Dividend Yield (%)	3.9%	3.7%	4.2%	4.2%	4.2%

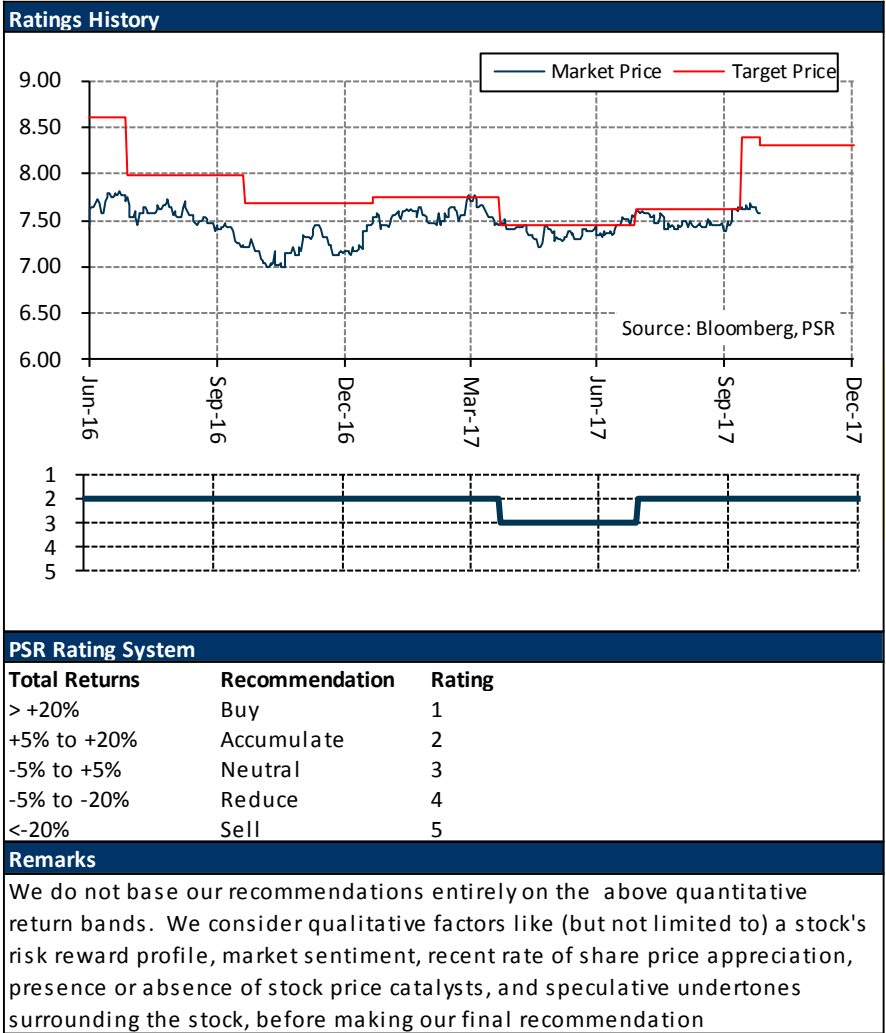
Growth & Margins (%)

Growth					
Revenue	10.2%	-2.1%	7.7%	2.0%	1.4%
EBITDA	10.0%	-6.8%	16.5%	2.2%	1.7%
EBIT	10.2%	-2.1%	7.7%	1.8%	1.0%
Net profit, adj.	0.0%	-2.7%	9.6%	1.5%	1.1%
Margins					
EBITDA margin	57.3%	57.4%	56.4%	55.2%	55.1%
EBIT margin	50.0%	50.2%	50.4%	50.3%	50.1%
Net profit margin	42.7%	42.4%	43.2%	43.0%	42.9%

Key Ratios

ROE (%)	35.5%	33.6%	34.8%	33.6%	32.9%
ROA (%)	17.9%	16.4%	17.9%	17.8%	17.8%

Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
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Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin – amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin – sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Macro

Pei Sai Teng – peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow, CFTe, FRM –
richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan – tandh@phillip.com.sg

Technical Analysis

Jeremy Ng – jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong – jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei – hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website: www.phillip.co.th

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

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