

Singapore Exchange Limited

SEHK's entry into Iron Ore Derivatives is not a threat



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SINGAPORE | FINANCE | UPDATE

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- SGX has a more comprehensive offering of coking coal futures and FFA that allows downstream steel industry participants to manage upstream volatility.
- SGX's block market is open to inter-dealer brokers and clearing members.
- SGX has strong iron ore OTC trading activities and long dated open interests which are critical for ample liquidity, competitive bid-ask spread and pricing discovery.
- SEHK's iron ore trading platform appears to target financial setups who use screen based tools to trade iron ore futures.
- **Maintain Accumulate with unchanged TP of S\$8.31 based on 23.9x historical 5-year average PE ratio.**

Accumulate (Maintain)

LAST DONE PRICE	SGD 7.53
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.31
TOTAL RETURN	14.6%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1071
MARKET CAP (USD mn / SGD mn) :	5942 / 8066
52 - WK HI/LO (SGD) :	7.82 / 7.06
3M Average Daily T/O (mn) :	182

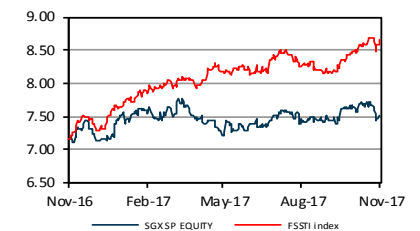
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.34%
Vanguard Group Inc	1.92%
Blackrock Fund Advisors	1.22%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.9)	4.1	9.3
STI RETURN	1.49	4.42	23.34

PRICE VS. STI



Source: Bloomberg, PSR

What's in the News?

SEHK has begun offering trading in Iron Ore Futures contracts as Iron Ore prices experience higher volatility.

Key advantages of SGX

SGX's block market is open to IDBs and clearing members. IDBs facilitate OTC trading which make up 90% of all iron ore transactions on SGX. But unlike SGX, SEHK's block market is open only to its clearing members which limits SEHK's engagement with the IDBs. IDBs are a crucial part of the ecosystem and many IDBs are based in Singapore.

Strong OTC trading activities and long dated open interests are critical for ample liquidity, competitive bid-ask spread and pricing discovery. This is evidenced from the SGX's long dated iron ore open interests stretching up to December 2020. SGX has a maximum contract months of 4 calendar years and the open interests' forward curve stretches out to c.3 calendar years from November 2017. In contrast, SEHK has a maximum contract months of 2 calendar years but their open interests' forward curve only stretches out to 2 contract months.

SGX's overnight session allows US and Europe clients to continue clearing after Asian hours. SEHK's trading runs from 9 am to 4.30pm and the 2nd session runs from 5.15pm to 1am. SGX's trading session from 7.25am to 8pm with an overnight session that runs through 4.45am. The overnight session volume accounts for approximately 20% of total volumes.

What do we think?

SGX will remain a dominant venue for iron ore trading because of its well-entrenched position in offering a comprehensive range of iron ore related bulk products. The creation of the iron ore complex that includes coking coal and FFA was built over time and could not be simply pieced together to function as a "plug and play" platform. Recall that in our [report](#) on the acquisition of the Baltic Exchange in September 2016, we believed that the synergies between FFA and iron ore were remote as global trade was weak. But on hindsight, the purchase of the Baltic Exchange was an early stage strategy to create a credible product that would stack well with the iron ore ecosystem and enhance SGX's competitive moat. So we believe that SGX's insights in this area of the derivatives business places it ahead of its competitors. We also think that SEHK's strategy to engage market participants through clearing members using screen based tools and trading fee waivers would appeal to price-taking market participants but that would be insufficient to create a robust market place.

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

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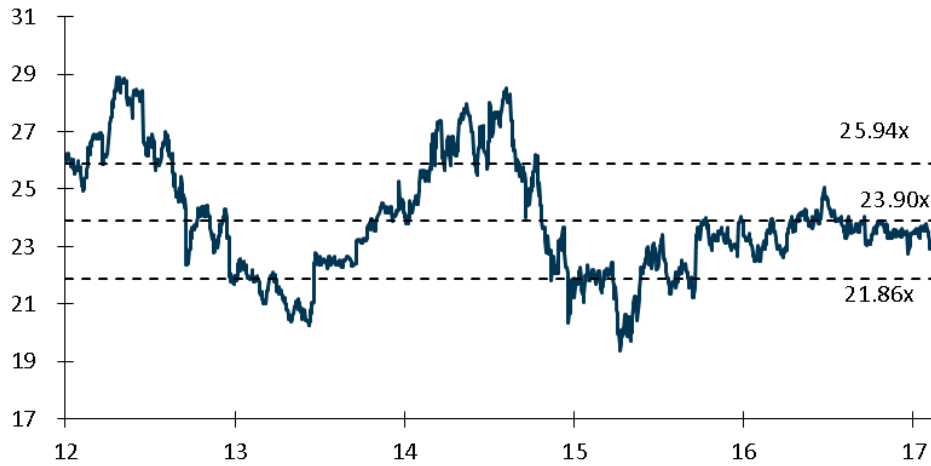
Investment Actions

Maintain Accumulate with unchanged TP of S\$8.31 (previous TP S\$8.39) based on 23.9x. This pegs SGX to its historical 5-year average PE ratio.

List of Abbreviations

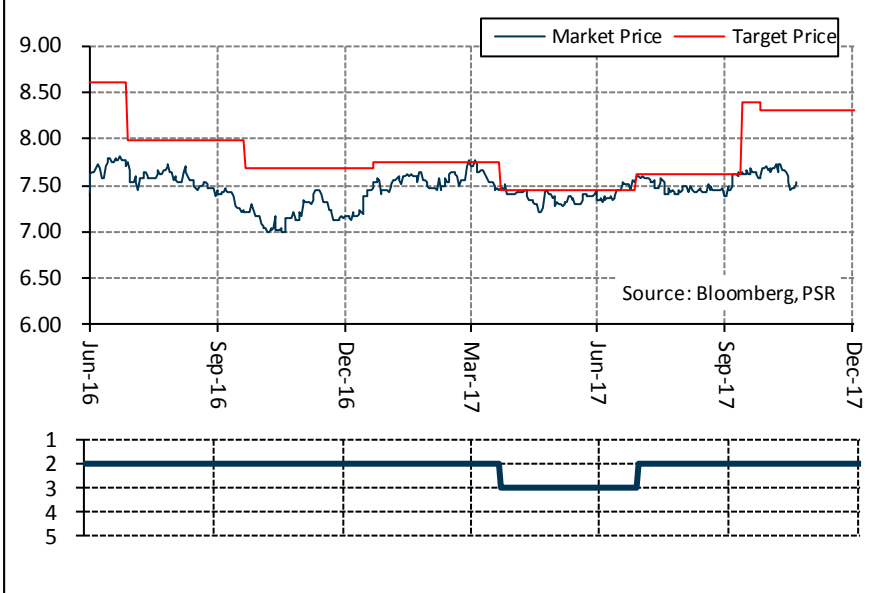
FFA – Freight Forward Agreements
 OTC – Over- The-Counter
 IDB – Inter-broker dealers
 SEHK – Stock Exchange of Hong Kong

5-year Historical Price Earnings Ratio



Source: Bloomberg, 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

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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