

Singapore Exchange Limited

Performance supported by Derivatives products



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SINGAPORE | FINANCE | 2Q18 RESULTS

22 January 2018

Highlights

- 2Q18 PATMI was in line with our estimates.
- 2Q18 SDAV was 4% higher but poor SDAV performance in December was a drag.
- Equity, FX and commodity derivatives volume was strong despite a weak trading environment globally.
- Securities clearing fee spreads were down due to higher trading volumes by MMLPs and higher composition of products such as ETFs and DLCs.
- Derivatives average fee per contract decreased due to higher trading volumes from trading members.
- **Maintain Accumulate with higher TP of S\$9.00 (previous TP S\$8.31) based on DCF.**

Results at a glance

(SGD mn)	2Q18	2Q17	YoY	1Q18	QoQ	Comments
Securities	51.8	52.1	-1%	51.2	1%	SDAV increase 4% YoY, avg clearing fee down from 2.97 in 2Q17 to 2.93 in 2Q18.
Derivatives	83.3	75.0	11%	80.6	3%	Total volumes increased 18% as all key derivative products improved.
Others	69.9	72.5	-4%	72.7	-4%	Post Trade Services revenue declined 15% YoY.
Total Revenue	205.0	199.6	3%	204.5	0%	
Opex	102.1	97.2	5%	98.5	4%	Higher staff costs and technology expenses.
Net Income	88.4	88.3	0%	90.7	-3%	

Source: Company, PSR

The Positives

+ **Derivatives revenue rose 11% YoY to S\$83.3mn, contributing 41% of total revenue.** Despite a weak trading environment globally, SGX managed to grow its derivatives revenue. The improved performance is attributed to stronger flows into Asian emerging markets in which SGX is the gateway.

+ **Listing revenue up 3% YoY to S\$12.4mn** due to a higher number of new bond listings. 2Q18 had 289 bond listings raising S\$103.5bn compared to 204 bond listings raising S\$89bn in 2Q17. SGX also saw its first listing of Indonesian bonds (Komodo bonds) in the quarter.

+ **Market Data and Connectivity revenue up 4% YoY to S\$24.2mn, accounting for 12% of total revenue.** The increase is due to higher reported data usage and from continued growth of SGX's colocation services business.

The Negatives

- **Securities revenue was lower even as SDAV rose because of declining average clearing fees.** 2Q18 average clearing fee for Equities was 2.93 bps, lower than 2Q17's 2.97 bps. The average-clearing fee for Other products was 0.51bps, lower than 2Q17's 0.86bps. The lower average clearing fee was due to increase in trading of warrants, ETFs and DLCs and higher trading volumes by Market Makers & Liquidity Providers (MMLP) as these market participants generally pay lower clearing fees.

Accumulate (Maintain)

LAST DONE PRICE	SGD 8.24
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 9.00
TOTAL RETURN	13.2%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1071
MARKET CAP (USD mn / SGD mn) :	6679 / 8826
52 - WK HI/LO (SGD) :	8.25 / 7.22
3M Average Daily T/O (mn) :	2.08

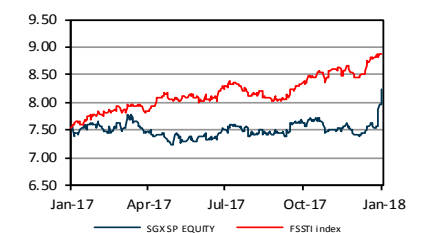
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.34%
Norges bank Investment Mgmt	1.17%
Vanguard Group Inc	0.99%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	7.4	4.6	10.7
STIRETURN	4.29	6.81	21.90

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	845	883
EBITDA (SGD mn)	469	460	483	504
NPAT (SGD mn)	349	340	367	390
EPS (Cents)	32.6	31.8	34.3	36.4
PER, (X)	22.2	23.8	24.1	22.6
P/BV, (X)	7.9	8.2	8.5	8.0
DPS (Cents)	28.0	28.0	32.0	32.0
Div Yield, (%)	4%	4%	4%	4%
ROE, (%)	36%	34%	34%	35%

Source: Bloomberg, Company, PSR

Valuation Method: DCF

(WACC: 7.3%, Terminal Growth Rate: 1.1%)

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- **Derivatives average fee per contract has been declining sequentially.** 2Q18 average fee per contract was S\$1.07, lower than 2Q17's S\$1.16 and 1Q18's S\$1.13. The decline has been attributed to the growth in volumes from trading members who enjoy lower rates on the derivative contracts.

- **Post-Trade Services down 15% YoY to S\$25.4mn, accounting for 12% of total revenue.** Contract processing revenue led the decline in the segment with a 63% YoY decrease from S\$3mn to S\$1.1mn as brokers are migrating to their own back office systems. Brokers are expected to complete the migration by 3Q18. In another segment of Post Trade Services, the Securities settlement revenue declined 9% YoY because of a change in the mix of securities settlement instructions.

Outlook

SGX will be launching Indian Single Stock Futures (SSFs) in February 2018 in addition to its existing Nifty 50 Index Futures. We believe SGX is expanding its product mix as foreign use of Indian domestic derivative products through Offshore Derivative Instruments (ODIs) also known as participatory notes (P-Notes) will be phased out. Therefore, foreign market participants are expected to clamour for Indian financial derivatives available in offshore platforms such as SGX and Dubai Gold and Commodity Exchange. SGX will be implementing the Dual Class Shares (DCS) and the rules for DCS are expected to be out by June 2018. Shortly thereafter, the first company with DCS is expected to be listed. SGX has initiated a Euro Medium Term Note programme to boost its war chest further by S\$1bn to S\$2bn. We believe that SGX will be looking for acquisitions to reinforce its derivatives and fixed income businesses and even venture into the private market space. FY18e operating expense guidance has improved to between S\$410mn to S\$420mn from previous guidance of S\$425mn to S\$435mn due to lower fixed costs.

Investment Actions

Maintain Accumulate with higher TP of S\$9.00 (previous TP S\$8.31) based on DCF.

Figure 1: Securities Revenue (\$mn)

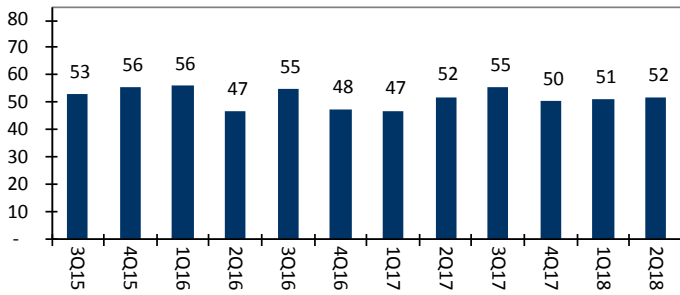


Figure 2: Derivatives Revenue (\$mn)

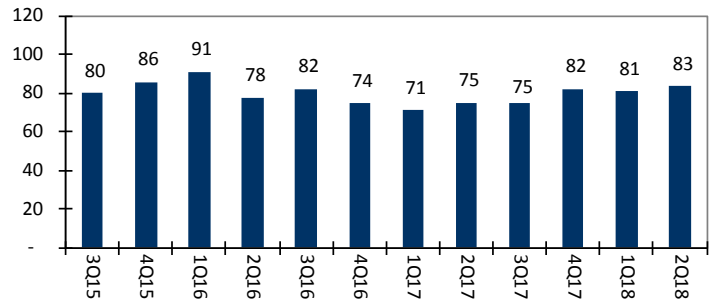


Figure 3: Post Trade services (\$mn)

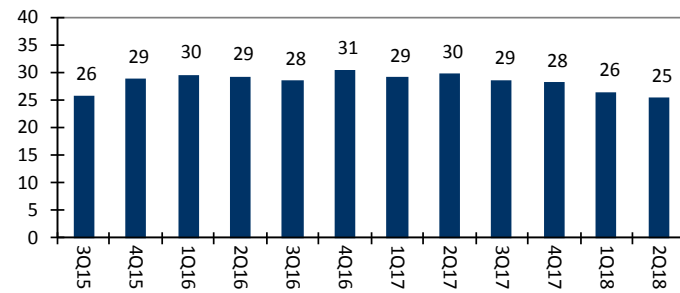


Figure 4: Member services and connectivity (\$mn)

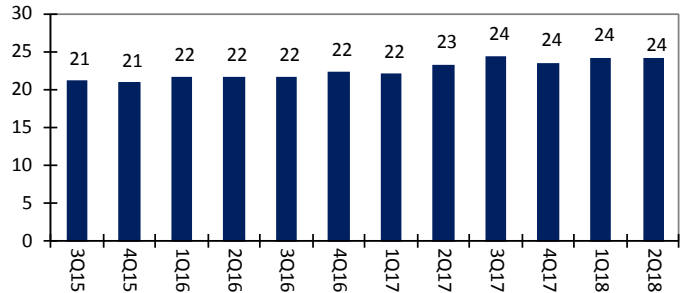


Figure 5: Issuer services (\$mn)

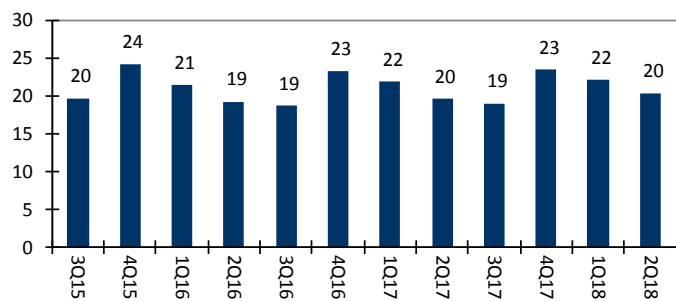


Figure 6: Total Revenue Composition (%)

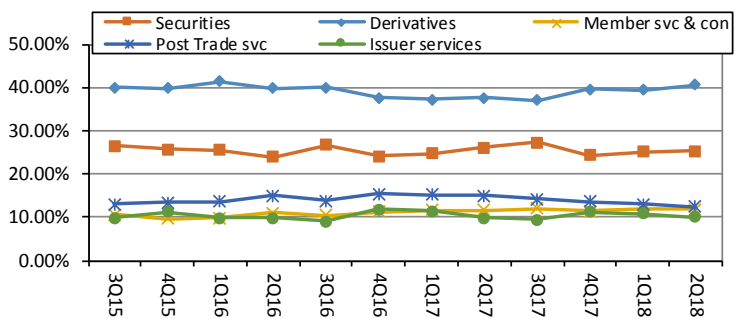


Figure 7: SDAV & DDAV

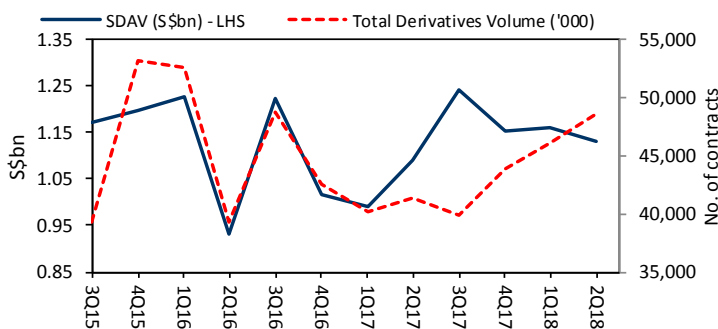


Figure 8: Sub Business Unit Main Drivers (\$mn)

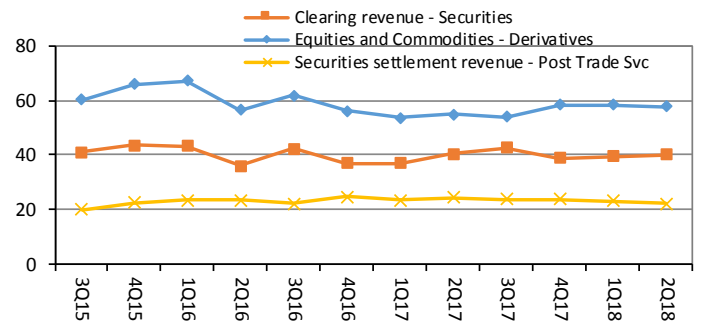


Figure 9: Total Operating Expenses (\$mn)

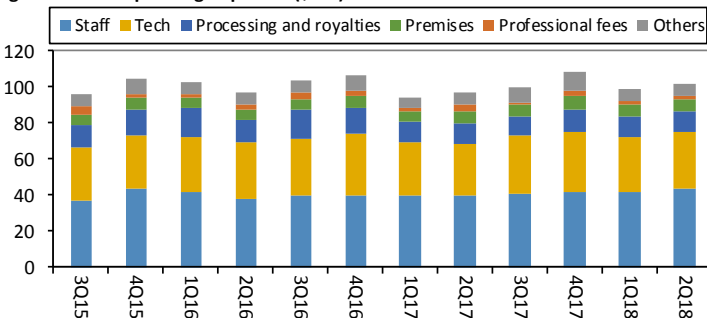
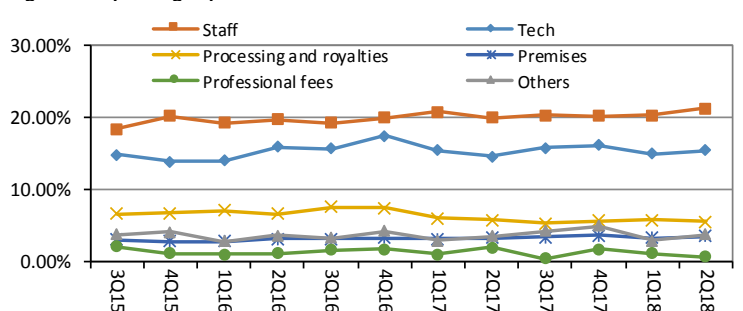


Figure 10: Operating Expenses as a % of Total Revenue



Financials

Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
Securities	205	205	205	211	210
Derivatives	325	303	352	375	383
Others	288	293	289	297	302
Operating revenue	818	801	845	883	894
Operating expenses	409	399	417	426	433
Operating profit	409	402	428	457	462
Other gains/(losses)	6	6	10	10	10
Associates & JVs	1	1	2	2	1
Profit Before Tax	416	409	440	468	473
Taxation	(67)	(69)	(73)	(78)	(79)
Net Income, reported	349	340	367	390	394
Net Income, adj.	349	340	367	390	394

Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
EPS, reported	32.6	31.8	34.3	36.4	36.8
DPS	28.0	28.0	32.0	32.0	32.0
BVPS	91.2	92.5	96.5	103.0	107.5

Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
CFO					
Profit before tax and Assoc.&JV	415	407	438	467	472
Depreciation & Amortisation	60	58	55	47	49
WC changes	17	(21)	(20)	(18)	11
Others	2	3	1	(1)	(1)
Cash generated from ops	494	447	473	495	530
Tax paid	(70)	(67)	(73)	(78)	(79)
Cashflow from ops	423	380	400	417	451
CFI					
CAPEX, net	(74)	(60)	(71)	(67)	(68)
Others	11	(87)	13	10	10
Cashflow from investments	(63)	(147)	(58)	(57)	(59)
CFF					
Loans, net of repayments	0	0	0	0	4
Dividends	(332)	(300)	(300)	(343)	(343)
Others	(13)	(9)	0	0	(4)
Cashflow from financing	(345)	(308)	(300)	(343)	(343)
Net change in cash	15	(76)	42	17	50
CCE, end	806	736	776	793	843

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	61	63	63
Others	245	348	349	354	360
Total non-current assets	307	429	410	417	423
Accounts receivables	930	815	866	856	867
Cash	806	736	776	793	843
Securities clearing funds	60	60	60	60	60
Others	3	1	1	1	1
Total current assets	1,799	1,613	1,703	1,710	1,771
Total Assets	2,105	2,041	2,113	2,127	2,194
LIABILITIES					
Accounts payables	1,013	892	893	859	874
Short term loans	0	0	0	0	0
Others	85	82	81	81	81
Total current liabilities	1,098	973	974	940	955
Long term loans	0	0	0	0	0
Others	18	35	36	36	36
Total non-current liabilities	18	35	36	36	36
Total Liabilities	1,116	1,009	1,010	976	991
EQUITY					
Non-controlling interests	0	0	0	0	0
Shareholder Equity	990	1,033	1,103	1,151	1,203

Valuation Ratios

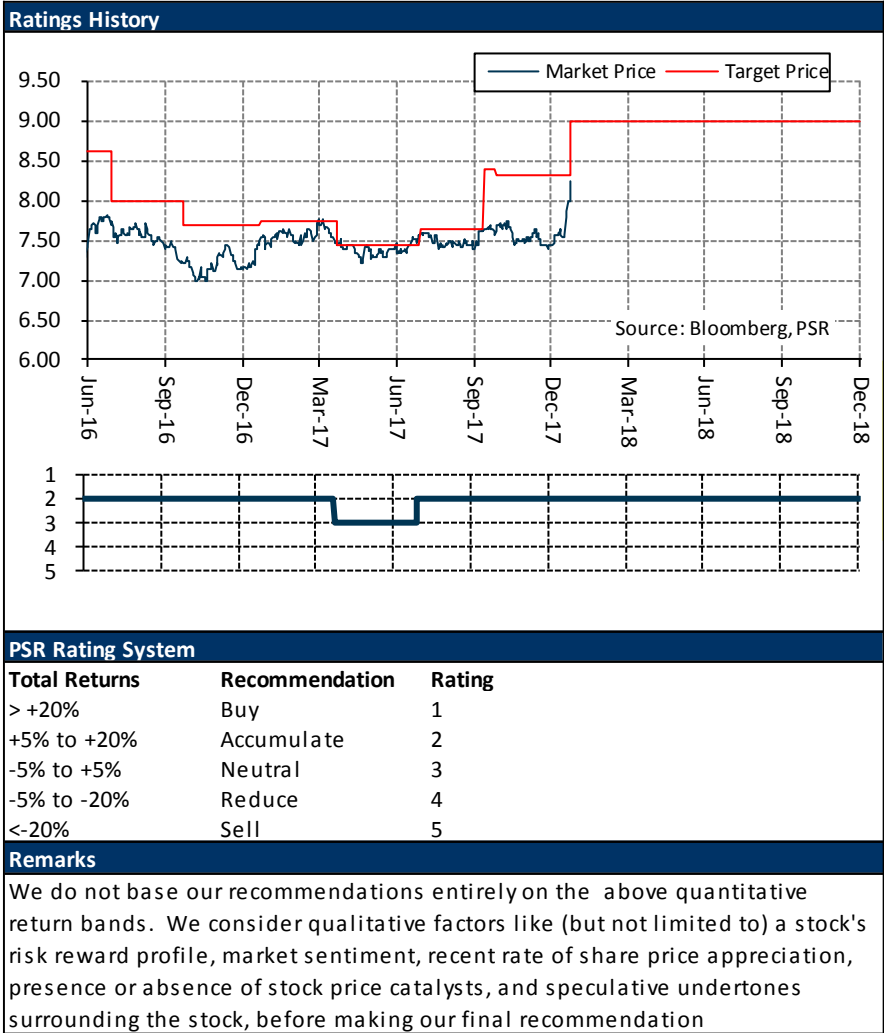
Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
P/E (X), adj.	22.2	23.8	24.1	22.6	22.4
P/B (X)	7.9	8.2	8.5	8.0	7.7
EV/EBITDA (X), adj.	8.8	9.4	9.8	9.5	9.4
Dividend Yield (%)	3.9%	3.7%	3.9%	3.9%	3.9%

Growth & Margins (%)

	FY16	FY17	FY18e	FY19e	FY20e
Growth					
Revenue	10.2%	-2.1%	5.5%	4.4%	1.3%
EBITDA	10.0%	-6.8%	16.0%	2.1%	1.6%
EBIT	10.2%	-2.1%	5.5%	6.7%	1.0%
Net profit, adj.	0.0%	-2.7%	8.0%	6.3%	1.1%
Margins					
EBITDA margin	57.3%	57.4%	57.1%	57.1%	57.1%
EBIT margin	50.0%	50.2%	50.7%	51.8%	51.6%
Net profit margin	42.7%	42.4%	43.4%	44.2%	44.1%

Key Ratios

	FY16	FY17	FY18e	FY19e	FY20e
ROE (%)	35.5%	33.6%	34.4%	34.6%	33.5%
ROA (%)	17.9%	16.4%	17.7%	18.4%	18.2%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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