

Singapore Exchange Limited

Thank you volatility



SINGAPORE | FINANCE | 3Q18 RESULTS

Highlights

- 3Q18 PATMI beat our estimates by 11%. Revenue of S\$222mn is the highest since listing. It was securities revenue that exceeded our expectations.
- Derivatives business drove revenue growth with volumes surging by 34% YoY. FX derivatives enjoyed a stellar 89% spike in volumes.
- SGX will launch new Indian equity derivative products by June18, linked to a so-called “publicly available reference price”.
- **Maintain BUY. Our target price raised to S\$9.20 (previously S\$8.89), in-line with the increase in our FY18e earnings by 4%.**

Results at a glance

(SGD mn)	3Q18	3Q17	YoY	2Q18	QoQ	Comments
Securities	61.7	55.3	12%	51.8	19%	SDAV rose 17% YoY to S\$1.45bn but average equity clearing fee came off 2% to 2.87bps in 3Q18.
Derivatives	90.5	75.2	20%	83.3	9%	Derivatives volumes surged 34% YoY, but offset against 11% decline in contract fees to S\$1.07.
Others	70.0	72.2	-3%	69.9	0%	As expected, post trade services revenue declined 11% YoY.
Total Revenue	222.2	202.7	10%	205.0	8%	
Opex	(104.4)	(99.7)	5%	(102.1)	2%	Operating expenses was contained to capture operating leverage.
Net Income	100.5	83.1	21%	88.4	14%	
DPS	5.0	5.0	0%	5.0	0%	

Source: Company, PSR

The Positives

+ Derivatives the growth driver. Derivatives revenue rose 20% YoY stemming from the 34% surge in volumes. However, average fee per contract was down 11% YoY to S\$1.07 due to change in product mix. Improvement in volumes came largely from China A50, Nikkei 225 and FX futures products.

+ Operating leverage intact. Revenue rose close to S\$17mn QoQ and almost 70% (or S\$12mn) flowed to net profits. SGX has managed to keep operating expenses relatively stable despite the improvement in revenue.

+ Higher number of listing expected. SGX mentioned FY18 equity listings would likely exceed FY17. This implies at least another 5 more IPOs in 4QFY18. Funds raised are up 6-fold YTD.

The Negatives

- No resolution with Indian exchanges. Recall that in Feb18, Indian exchanges announced they would stop licensing their index or provide data to foreign exchanges. This was to affect the continuity of SGX Nifty Fifty products. SGX recently stated it would list new India equity derivative products in June18. Unclear to us how these new products will be “seamlessly traded” and accepted by market participants. Also, there is the worry if such product could elicit some response from the Indian exchanges.

Investment Actions

We maintain our BUY recommendation. The return of volatility, continuous stream of new products and operating leverage will be supportive of earnings growth. Valuations are attractive in view of the 35% ROEs, 4% dividend yield and momentum in earnings.

23 April 2018

BUY (Maintain)

LAST DONE PRICE	SGD 7.56
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 9.20
TOTAL RETURN	25.9%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN):	1070
MARKET CAP (USD mn / SGD mn):	6141/ 8089
52 - WK HI/LO (SGD):	8.5 / 7.1
3M Average Daily T/O (mn):	3.01

MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.34%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.9	(4.7)	5.3
STI RETURN	190	100	17.50

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	852	896
EBITDA (SGD mn)	469	460	498	513
NPAT (SGD mn)	349	340	377	396
EPS (Cents)	32.6	31.8	35.2	37.0
PER, (X)	22.2	23.8	20.9	19.9
P/BV, (X)	7.9	8.2	7.6	7.1
DPS (Cents)	28.0	28.0	32.0	32.0
Div Yield, (%)	4%	4%	4%	4%
ROE, (%)	36%	34%	35%	35%

Source: Bloomberg, Company, PSR

Valuation Method: DCF

(WACC: 7.35%, Terminal Growth Rate: 1.1%)

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Financials

Income Statement

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Securities	209	205	205	214	198
Derivatives	296	325	303	350	403
Others	238	288	293	287	295
Operating revenue	742	818	801	852	896
Operating expenses	377	409	399	411	431
Operating profit	402	409	402	441	465
Other gains/(losses)	8	6	6	10	10
Associates & JVs	2	1	1	1	2
Profit Before Tax	412	416	409	453	476
Taxation	(63)	(67)	(69)	(75)	(80)
Net Income, reported	349	349	340	377	396
Net Income, adj.	349	349	340	377	396

Per share data (SGD Cents)

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	32.59	32.6	31.8	35.2	37.0
DPS	28.00	28.0	28.0	32.0	32.0
BVPS	86.20	91.2	92.5	96.5	103.9

Cash Flow

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax and Assoc.&JV	410	415	407	451	475
Depreciation & Amortisation	57	60	58	57	49
WC changes	14	17	(21)	(42)	7
Others	11	2	3	1	(1)
Cash generated from ops	493	494	447	467	530
Tax paid	(64)	(70)	(67)	(75)	(80)
Cashflow from ops	429	423	380	392	450
CFI					
CAPEX, net	(82)	(74)	(60)	(71)	(67)
Others	(13)	11	(87)	13	10
Cashflow from investments	(95)	(63)	(147)	(58)	(57)
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	(300)	(332)	(300)	(300)	(343)
Others	(8)	(13)	(9)	0	0
Cashflow from financing	(308)	(345)	(308)	(300)	(343)
Net change in cash	26	15	(76)	34	50
CCE, end	790	806	736	768	817

Source: Company, PSR

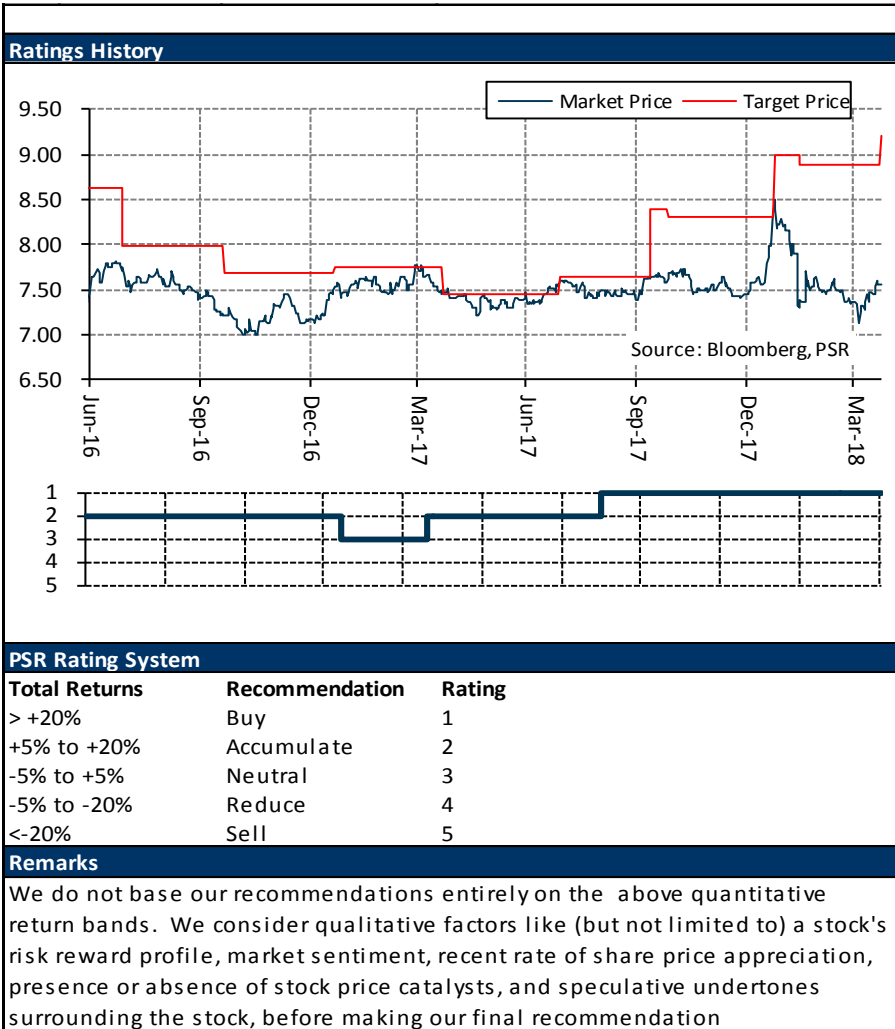
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Jun, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	61	62	80	66	64
Others	237	245	348	359	364
Total non-current assets	298	307	429	424	429
Accounts receivables	654	930	815	857	875
Cash	790	806	736	768	817
Securities clearing funds	60	60	60	60	60
Others	0	3	1	1	1
Total current assets	1,504	1,799	1,613	1,686	1,753
Total Assets	1,802	2,105	2,041	2,110	2,182
LIABILITIES					
Accounts payables	718	1,013	892	856	874
Short term loans	0	0	0	0	0
Others	86	85	82	87	87
Total current liabilities	805	1,098	973	943	961
Long term loans	0	0	0	0	0
Others	21	18	35	35	35
Total non-current liabilities	21	18	35	35	35
Total Liabilities	825	1,116	1,009	978	996
EQUITY					
Non-controlling interests	0	0	0	0	0
Shareholder Equity	976	990	1,033	1,112	1,164

Valuation Ratios

Y/E Jun	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	24.0	22.2	23.8	20.9	19.9
P/B (X)	9.1	7.9	8.2	7.6	7.1
EV/EBITDA (X), adj.	10.5	8.8	9.4	8.7	8.4
Dividend Yield (%)	3.6%	3.9%	3.7%	4.3%	4.3%
Growth & Margins (%)					
Growth					
Revenue	13.9%	10.2%	-2.1%	6.4%	5.1%
EBITDA	41.6%	10.0%	-6.8%	15.6%	4.8%
EBIT	13.9%	10.2%	-2.1%	6.4%	5.4%
Net profit, adj.	22.3%	0.0%	-2.7%	11.1%	5.0%
Margins					
EBITDA margin	61.9%	57.3%	57.4%	58.4%	57.3%
EBIT margin	54.2%	50.0%	50.2%	51.8%	51.9%
Net profit margin	47.0%	42.7%	42.4%	44.3%	44.3%
Key Ratios					
ROE (%)	36.8%	35.5%	33.6%	35.2%	34.8%
ROA (%)	20.3%	17.9%	16.4%	18.2%	18.5%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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