

Singapore Exchange Limited

Pause in SGX-NSE dispute



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SINGAPORE | FINANCE | FY18 RESULTS

- FY18 revenue was within expectations and PATMI was 3.7% lower than expected due to higher OPEX from legal fees incurred in relation to SGX-India derivatives injunction and consolidation of Baltic Exchange. FY18 revenue of S\$845mn reached the highest since listing.
- FY18 Derivatives business continues to drive revenue growth; volume surged 20% YoY. FX futures achieved a record high of 14.3mn contracts, almost double of FY17.
- Final dividend of 15 cents per share proposed (4Q17: 5 cents ordinary, 8 cents special).
- Change in dividend policy from the percentage of net profit, to one based on an absolute amount. Quarterly dividends of 7.5 cents/share will be paid starting from 1Q19.
- Maintain BUY. Our target price is lowered to S\$8.93 (previously S\$9.20), as we roll over to our FY19e estimates, with the decrease in our FY19e earnings by 3%.**

Results at a glance

| (SGD mn) | FY18 | FY17 | YoY | Comments |
|----------------------|--------------|--------------|-----|---|
| Securities | 221.1 | 205.0 | 8% | SDAV increase 11% YoY, avg clearing fee down to 2.88 bps. |
| Derivatives | 339.8 | 303.1 | 12% | Derivatives volume surged 20% YoY mainly due to China A50 and FX futures. |
| Others | 283.7 | 292.7 | -3% | As expected, post trade services revenue declined 14.3% YoY. |
| Total Revenue | 844.7 | 800.8 | 5% | |
| Opex | (419.8) | (399.0) | 5% | Higher expenses due to the consolidation of the Baltic exchange and legal fees incurred for the injunction against SGX India contracts. FY18 within guidance. |
| Net Income | 363.2 | 339.7 | 7% | |
| DPS | 30.00 | 28.00 | 7% | |

Source: Company, PSR

The Positives

+ Derivatives business continues on its growth trajectory. Derivatives revenue rose 12% YoY stemming from the 20% surge in volume, reaching a record high of 198mn contracts. However, the average fee per contract was down 10% YoY to S\$1.06 due to change in product mix towards lower yield products. Improvement in volumes came largely from China A50, Nikkei 225 and FX futures products.

+ Securities to benefit from volatility. SDAV achieved a 5-year high of S\$1.26bn, a 12% increase YoY. SDAV was boosted by new DLCs and efforts to grow retail market participation. Expectations of more rate hikes in the US Federal Funds Rate and trade war conflicts could fuel more reallocations of investment holdings within investors' portfolios; which could result in higher volumes generated in the upcoming quarters.

+ New dividend policy to support growth. The old dividend policy was a payout ratio of at least 80% of net profit. The average payout ratio for past 3 years was 87%. Moving forward, the new dividend policy provides flexibility to balance quarterly dividend payments of 7.5 cents/share which will enable SGX to retain earnings to support growth. Based on our estimates, the resulting payout ratio for FY19 and FY20 would be lower at 84% and 83% respectively, assuming SGX's annual dividends of 30 cents remains unchanged from FY18. Shareholders can now receive dividends earlier and potential growth in dividends relies on future performances.

30 July 2018

BUY (Maintain)

| | |
|---------------------|--------------|
| LAST DONE PRICE | SGD 7.57 |
| FORECAST DIV | SGD 0.30 |
| TARGET PRICE | SGD 8.93 |
| TOTAL RETURN | 21.9% |

COMPANY DATA

| | |
|-------------------------------|-------------|
| BLOOMBERG TICKER | SGX SP |
| O/S SHARES (MN): | 1070 |
| MARKET CAP (USD mn / SGD mn): | 5834 / 7951 |
| 52 - WK HI/LO (SGD): | 8.5 / 7.05 |
| 3M Average Daily T/O (mn): | 196 |

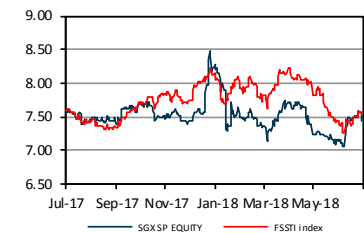
MAJOR SHAREHOLDERS (%)

| | |
|----------------------|--------|
| SEL Holdings Pte Ltd | 23.36% |
|----------------------|--------|

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1YR |
|-----------|-------|--------|------|
| COMPANY | 5.7 | (17) | 4.1 |
| STIRETURN | 2.54 | (5.79) | 2.76 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E June | FY 16 | FY 17 | FY 18 | FY 19e |
|-----------------|-------|-------|-------|--------|
| Revenue (SGDmn) | 818 | 801 | 845 | 920 |
| EBITDA (SGDmn) | 469 | 460 | 486 | 531 |
| NPAT (SGD mn) | 349 | 340 | 363 | 404 |
| EPS (Cents) | 32.6 | 31.8 | 33.9 | 37.7 |
| PER, (X) | 22.2 | 23.8 | 22.3 | 20.1 |
| P/BV, (X) | 7.9 | 8.2 | 7.8 | 7.4 |
| DPS (Cents) | 28.0 | 28.0 | 30.0 | 30.0 |
| Div Yield, (%) | 4% | 4% | 4% | 4% |
| ROE, (%) | 36% | 34% | 34% | 37% |

Source: Bloomberg, Company, P SR

Valuation Method: DCF

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

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+ Market Data and Connectivity revenue up 5% YoY to S\$98.3mn, accounting for 12% of total revenue. The increase is due to continued growth in data licences for application system usages and SGX's colocation services business.

+ Listing revenue up 5% YoY to S\$51.6mn due to a higher number of new bond listings. FY18 had 1,154 bond listings raising S\$481.9bn compared to 819 listings raising S\$384.7bn in FYQ17. The 22 new equity listings in FY18 raised S\$6.2bn as compared to 22 listings that raised only S\$1.3bn in FY17.

List of Abbreviations:

SDAV – Securities daily average value
DDAV – Derivatives daily average volume
DLCs – Daily leverage certificates
NSE – National Stock Exchange of India
IISL - India Index Services and Products Limited

The Negatives

- Arbitration with IISL hangs in limbo. The cross-border trading link collaboration in GIFT City seems to be back on the table; as a result, arbitration proceedings have been deferred but SGX's extension of SGX Nifty contract licence beyond August 2018 remains valid. Uncertainties caused by the developments on India derivatives since February 2018, was reflected in the weaker derivatives average daily volume in 4QFY18 and remains uncertain until the arbitration has a conclusion. DDAV in 4QFY18 decreased 10.9% QoQ but increased by 13.6% YoY. However, the continuation of licensing and postponement of arbitration should provide some stability for the India derivatives in the near term. Nifty 50 Index Futures accounted for 11% of the total volume of derivatives traded in FY2018.

- Average securities clearing fee has been declining. FY18 average clearing fee was 2.88 bps which is lower than FY17's 2.94 bps due to higher trading volumes by Market Makers & Liquidity Providers (MMLP) as these market participants generally pay lower clearing fees.

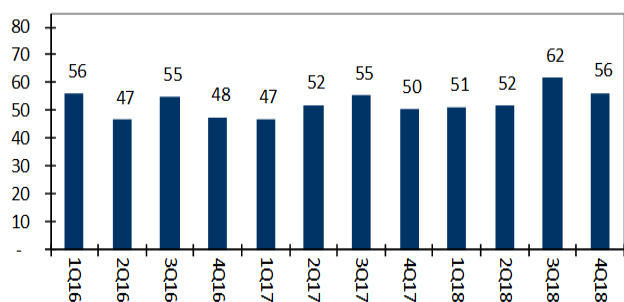
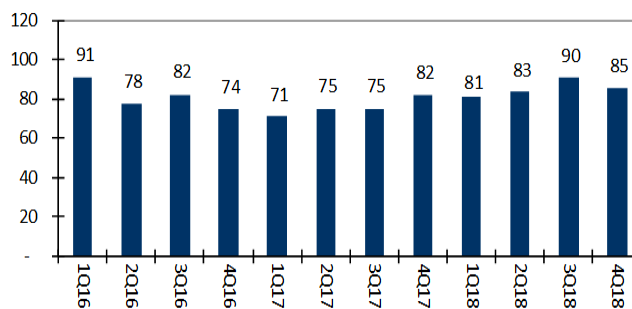
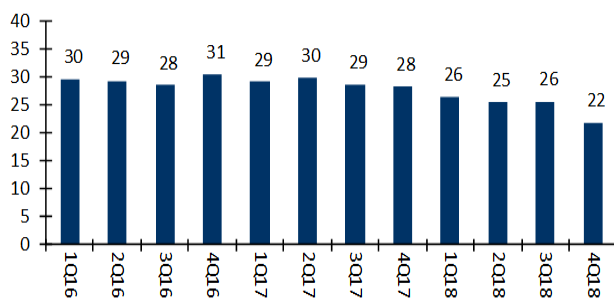
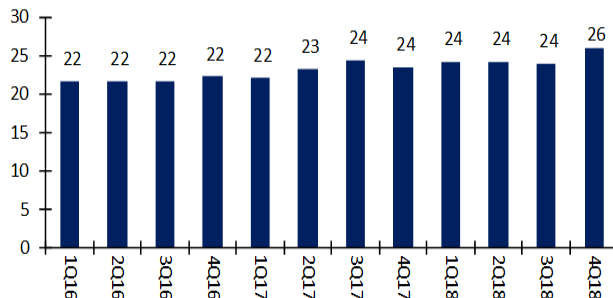
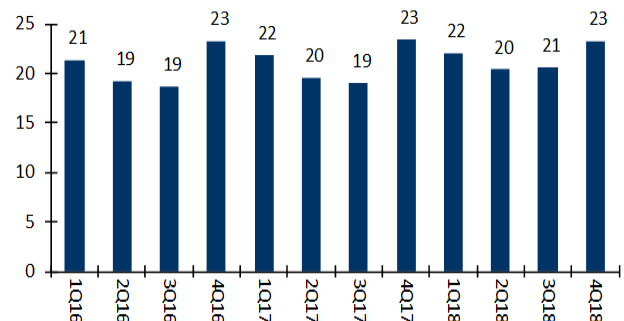
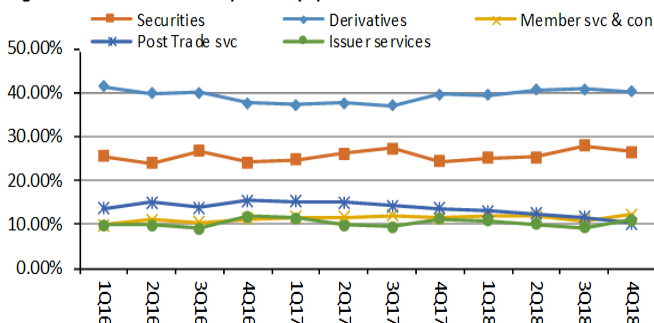
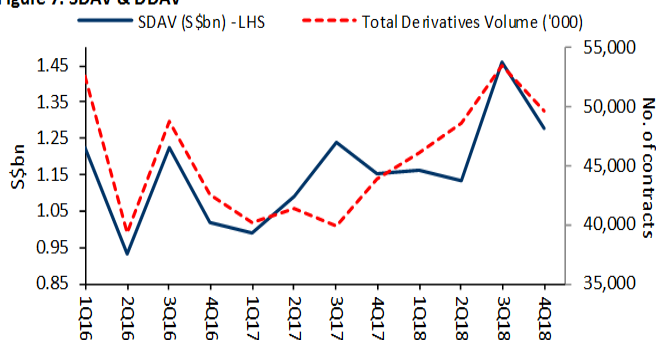
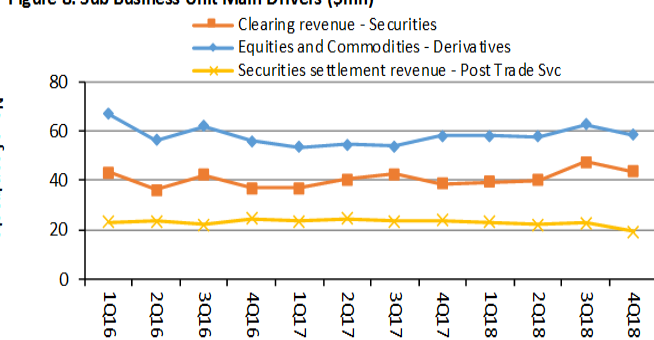
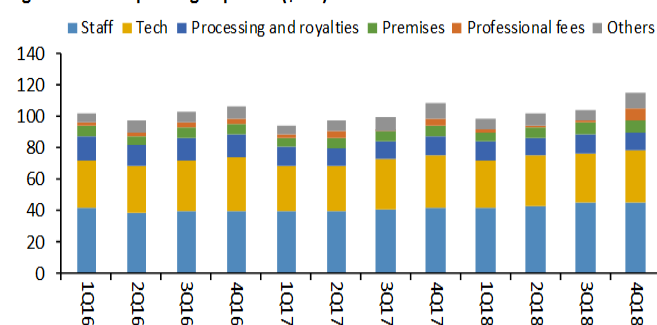
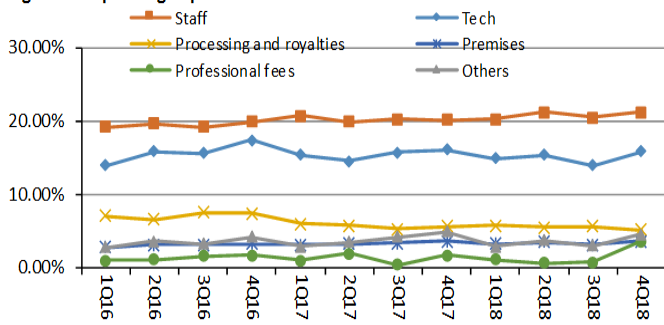
- Post Trade Services down 14.2% YoY to S\$99.3mn, accounting for 12% of total revenue. Contract processing revenue declined 71% from S\$11.6mn in FY17 to S\$3.4mn because brokers migrated to their own back-office systems in February 2018 and no longer require SGX's contract processing services. In the other segment of Post Trade Services, the securities settlement revenue declined 8% due to a change in the mix of subsequent settlement instructions. However, we think that this segment appears to be stagnating and would not contribute meaningfully to SGX's growth in FY19.

Outlook

Good earnings growth is supported by volatility, operating leverage and robust balance sheet. We have increased our FY19e SDAV estimate to S\$1.32bn (previously S\$1.20bn) because continued stock-market volatility driven by the US-China trade conflict and rising interest rates could benefit trade volume in the short term as the market whipsaws in both directions. SGX's debt-free balance sheet and monopoly should facilitate inorganic earnings growth.

Investment Actions

We maintain our BUY recommendation. Valuations are attractive in view of the 38% ROEs, 4% dividend yield and momentum in earnings.

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 | FY18 | FY19e | FY20e |
|-----------------------------|------------|------------|------------|------------|--------------|
| Securities | 205 | 205 | 221 | 231 | 231 |
| Derivatives | 325 | 303 | 340 | 394 | 476 |
| Others | 288 | 293 | 284 | 295 | 299 |
| Operating revenue | 818 | 801 | 845 | 920 | 1,005 |
| Operating expenses | 409 | 399 | 420 | 445 | 487 |
| Operating profit | 409 | 402 | 425 | 475 | 518 |
| Other gains/(losses) | 6 | 6 | 11 | 10 | 10 |
| Associates & JVs | 1 | 1 | 1 | 2 | 1 |
| Profit Before Tax | 416 | 409 | 437 | 486 | 529 |
| Taxation | (67) | (69) | (74) | (83) | (90) |
| Net Income, reported | 349 | 340 | 363 | 404 | 439 |
| Net Income, adj. | 349 | 340 | 363 | 404 | 439 |

Per share data (SGD Cents)

| Y/E Jun | FY16 | FY17 | FY18 | FY19e | FY20e |
|------------------|------|------|------|-------|-------|
| EPS, reported | 32.6 | 31.8 | 33.9 | 37.7 | 41.0 |
| DPS | 28.0 | 28.0 | 30.0 | 30.0 | 30.0 |
| BVPS | 91.2 | 92.5 | 96.5 | 102.4 | 102.9 |
| Payout ratio (%) | 86% | 88% | 88% | 80% | 73% |

Cash Flow

| Y/E Jun, SGD mn | FY16 | FY17 | FY18 | FY19e | FY20e |
|--|--------------|--------------|--------------|--------------|--------------|
| CFO | | | | | |
| Profit before tax and Assoc.&JV | 415 | 407 | 436 | 485 | 528 |
| Depreciation & Amortisation | 60 | 58 | 61 | 56 | 64 |
| WC changes | 17 | (21) | (7) | (44) | 19 |
| Others | 2 | 3 | 2 | (0) | (0) |
| Cash generated from ops | 494 | 447 | 492 | 497 | 611 |
| Tax paid | (70) | (67) | (65) | (83) | (90) |
| Cashflow from ops | 423 | 380 | 427 | 415 | 521 |
| CFI | | | | | |
| CAPEX, net | (74) | (60) | (79) | (84) | (97) |
| Others | 11 | (87) | (11) | 10 | 10 |
| Cashflow from investments | (63) | (147) | (90) | (74) | (87) |
| CFF | | | | | |
| Loans, net of repayments | 0 | 0 | 0 | 0 | 0 |
| Dividends | (332) | (300) | (300) | (401) | (321) |
| Others | (13) | (9) | (8) | 0 | 0 |
| Cashflow from financing | (345) | (308) | (308) | (401) | (321) |
| Net change in cash | 15 | (76) | 29 | (61) | 113 |
| CCE, end | 806 | 736 | 832 | 716 | 830 |

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 | FY18 | FY19e | FY20e |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| ASSETS | | | | | |
| PPE | 62 | 80 | 72 | 76 | 85 |
| Software | 155 | 159 | 174 | 188 | 204 |
| Intangible assets | 26 | 64 | 61 | 60 | 59 |
| Goodwill | 10 | 88 | 89 | 89 | 89 |
| Others | 55 | 37 | 39 | 39 | 39 |
| Total non-current assets | 307 | 429 | 435 | 452 | 475 |
| Accounts receivables | 930 | 815 | 827 | 903 | 987 |
| Cash | 806 | 736 | 772 | 716 | 830 |
| Securities clearing funds | 60 | 60 | 60 | 60 | 60 |
| Others | 3 | 1 | 22 | 22 | 22 |
| Total current assets | 1,799 | 1,613 | 1,680 | 1,702 | 1,898 |
| Total Assets | 2,105 | 2,041 | 2,115 | 2,153 | 2,373 |
| LIABILITIES | | | | | |
| Accounts payables | 1,013 | 892 | 891 | 909 | 996 |
| Short term loans | 0 | 0 | 0 | 0 | 0 |
| Others | 85 | 82 | 95 | 95 | 95 |
| Total current liabilities | 1,098 | 973 | 986 | 1,005 | 1,091 |
| Long term loans | 0 | 0 | 0 | 0 | 0 |
| Others | 18 | 35 | 33 | 33 | 33 |
| Total non-current liabilities | 18 | 35 | 33 | 33 | 33 |
| Total Liabilities | 1,116 | 1,009 | 1,019 | 1,037 | 1,124 |
| EQUITY | | | | | |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 |
| Shareholder Equity | 990 | 1,033 | 1,096 | 1,101 | 1,220 |

Valuation Ratios

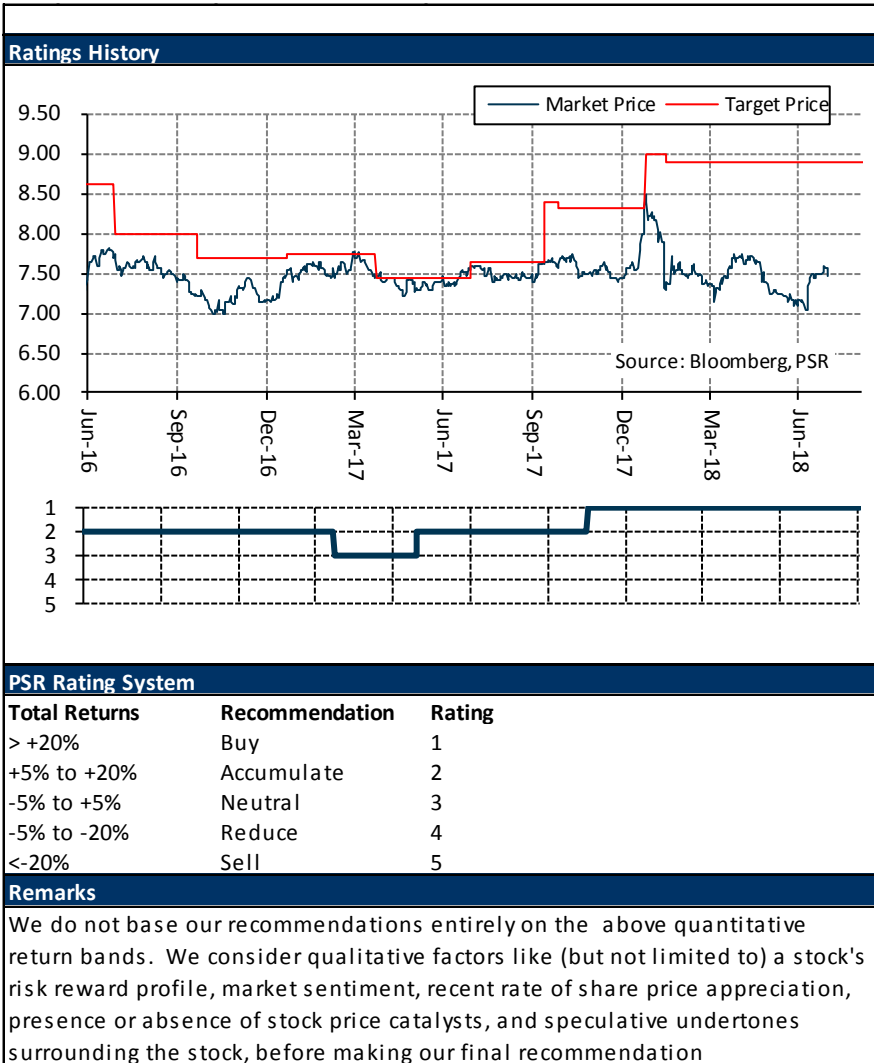
| Y/E Jun | FY16 | FY17 | FY18 | FY19e | FY20e |
|---------------------|------|------|------|-------|-------|
| P/E (X), adj. | 22.2 | 23.8 | 22.3 | 20.1 | 18.4 |
| P/B (X) | 7.9 | 8.2 | 7.8 | 7.4 | 7.4 |
| EV/EBITDA (X), adj. | 8.8 | 9.4 | 8.9 | 8.3 | 7.6 |
| Dividend Yield (%) | 3.9% | 3.7% | 4.0% | 4.0% | 4.0% |

Growth & Margins (%)

| Growth | | | | | |
|-------------------|-------|-------|-------|-------|-------|
| Revenue | 10.2% | -2.1% | 5.5% | 8.9% | 9.3% |
| EBITDA | 10.0% | -6.8% | 12.1% | 6.0% | 9.4% |
| EBIT | 10.2% | -2.1% | 5.5% | 11.8% | 9.1% |
| Net profit, adj. | 0.0% | -2.7% | 6.9% | 11.1% | 8.8% |
| Margins | | | | | |
| EBITDA margin | 57.3% | 57.4% | 57.5% | 57.8% | 57.9% |
| EBIT margin | 50.0% | 50.2% | 50.3% | 51.6% | 51.5% |
| Net profit margin | 42.7% | 42.4% | 43.0% | 43.9% | 43.7% |

Key Ratios

| Key Ratios | | | | | |
|-----------------|----------|----------|----------|----------|----------|
| ROE (%) | 35.5% | 33.6% | 34.1% | 36.7% | 37.9% |
| ROA (%) | 17.9% | 16.4% | 17.5% | 18.9% | 19.4% |
| Net Gearing (X) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |



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