



Singapore Exchange Limited

Derivatives thriving from volatile environment

SINGAPORE | FINANCE | 1Q19 RESULTS

22 October 2018

BUY (Maintained)

LAST DONE PRICE	SGD 6.93
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 9.01
TOTAL RETURN	34.6%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN)	1072
MARKET CAP (USD mn / SGD mn)	5393 / 7430
52 - WK HI/LO (SGD)	8.5 / 6.81
3M Average Daily T/O (mn)	178

MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.32%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(3.3)	(5.5)	(6.1)
STIRETURN	(3.55)	(5.04)	(4.72)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY 17	FY 18	FY 19 e	FY 20 e
Revenue (SGD mn)	801	845	895	952
EBITDA (SGD mn)	460	486	502	526
NPAT (SGD mn)	340	363	383	403
EPS (Cents)	318	33.9	35.8	37.7
PER, (X)	23.8	22.3	19.4	18.4
P/BV, (X)	8.2	7.8	6.8	6.9
DPS (Cents)	28.0	30.0	31.5	33.0
Div Yield, (%)	4%	4%	5%	5%
ROE, (%)	33.6%	34.1%	35.2%	36.2%

Source: Bloomberg, Company, PSR

Valuation Method

P/E Multiple @25.2x

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- 1Q19 Revenue and PATMI was 5.6% and 6.5% lower than estimated respectively, due to weaker than expected revenues from Post Trade Services and Issuer Services.
- Securities business missed our estimates by 6.6% as the weaknesses in emerging markets and concerns over economic conditions lead to weaker flows.
- Derivatives business was the standout performer, achieving strong record revenues with a surge of 17% YoY in volume.
- Interim dividend per share spiked up 50% to 7.5 cents (1Q18: 5 cents); due to a change in dividend policy announced last quarter.
- We maintain our BUY recommendation for SGX and raise our Target Price to S\$9.01 (previously S\$8.93). We have changed our valuation method from DCF to P/E ratio multiple. Our Target Price is driven by 25.2x PER, in line with SGX's peers.**

Results at a glance

(SGD mn)	1Q19	1Q18	YoY	4Q18	QoQ	Comments
Securities	46.9	51.2	-8%	56.4	-17%	SDAV decreased -8% YoY and avg clearing fees stable at 2.88 bps (1Q18: 2.87 bps).
Derivatives	97.7	80.6	21%	85.5	14%	Derivatives volume surged +17% YoY mainly due to China A50 futures, FX futures and MSCI NTR derivatives.
Others	64.2	72.7	-12%	71.1	-10%	Issuer Services and Post Trade Services declined -12% YoY and -24% YoY respectively.
Total Revenue	208.9	204.5	2%	213.0	-2%	
Opex	(102.5)	(98.5)	4%	(114.9)	-11%	Higher staff counts as head count rose +3% YoY, as well as a +3% increase in technology expenses.
Net Income	91.1	90.7	0%	83.7	9%	
DPS	7.5	5.0	50%	15.0	-50%	

Source: Company, PSR

The Positives

+ Derivatives revenue achieved a record of S\$98m, rising 21% YoY offsetting the decline in equities and fixed Income revenue. Within the derivatives business, equities and commodities volume spiked 17% YoY in volume term, reaching a high of 54mn contracts in a quarter. Improvement in volumes came from China A50 futures and FX futures products, which benefited from higher volatility in the underlying market. However, the average fee per contract was down 6.3% YoY to S\$1.05 due to changes in product mix towards lower yielding products.

+ Collateral management, license and other revenue grew 48% YoY. With rising volatility, risk management solutions have seen an increase in demand. SGX was able to register higher open interest and collateral margin balances.

+ Market Data and Connectivity revenue up 2% YoY, accounting for 12% of total revenue. The growth was due to higher derivatives API subscriptions and expansion of SGX's colocation services business.

The Negatives

- Securities revenue contracted 8% YoY. The contraction was caused by current weaknesses in the emerging markets and concerns of a slowdown in economic growth. Despite volatility created by the trade war and rising interest rates in the stock market, securities revenue growth was dampened by the slowing SDAV which decreased 8% YoY. However, average clearing fees for Equities and Other products remain stable at 2.88 bps (1Q18: 2.87 bps) and 0.56 bps (1Q18: 0.55 bps) respectively.

- **Fixed Income revenue fell 13% YoY.** Issuer Services declined 12% YoY due to lower bond listings. 1Q19 had 247 bond listings raising S\$92bn as compared to 347 listings that raised S\$156mn of funds a year ago. Equities listings was stable YoY. Post Trade Services was down 24% YoY due to decreasing subsequent settlement activities (we believe that this segment is stagnating and would not contribute meaningfully to SGX's growth in FY19), downward repricing of DVP guarantee fee and complete cessation of contract processing revenue in 1Q19 (following completion of broker-migration in February 2018).

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
NTR – Net Total Return
DVP – Delivery versus Payment

Other Updates

During the quarter, SGX made strategic investments to expand its Fixed Income business as well as to create a digital marketplace for the **freight industry**. This will allow commodity trades to connect with the freight industry.

With the cessation of contract processing service following the completion of broker-migration in February 2018, SGX will be launching a **New Post Trade System (Phase 2)** in December 2018. The new revenue opportunities are (i) New settlement instruction; (ii) Broker linked balances, (iii) Securities borrowing & lending, and (iv) FX conversion.

The **SGX-IISL arbitration** has no further updates and remains as a financial risk whose outcome has yet to be set in stone.

Outlook

Its diversified earnings growth is supported by its multi-asset strategy, volatility, operating leverage and a robust balance sheet. Continued stock-market volatility driven by the US-China trade conflict and rising interest rates should benefit derivatives turnover. SGX's debt-free balance sheet and monopoly helps in facilitating inorganic growth.

Investment Actions

We maintain our BUY recommendation for SGX and raise our Target Price to S\$9.01 (previously S\$8.93). The increase in Target Price is mainly driven by 25.2x PER, which is in line with SGX's industry peers (Table 1). SGX's attractiveness as an investment in the medium term remains intact with superior ROE, dividend yield and attractive valuation as compared to its regional peers. We believe that the stock has priced in the loss of Indian derivatives revenue and lacklustre volume growth. Also, SGX is a defensive stock with consistent and diversified earnings, valuation and dividend support for resilience in an uncertain environment.

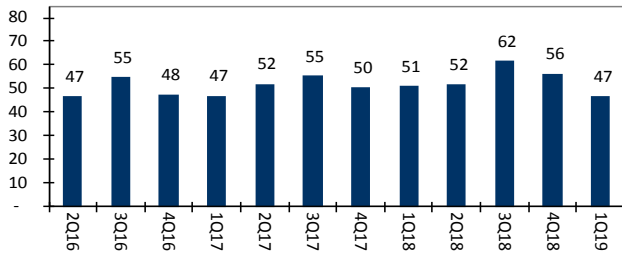
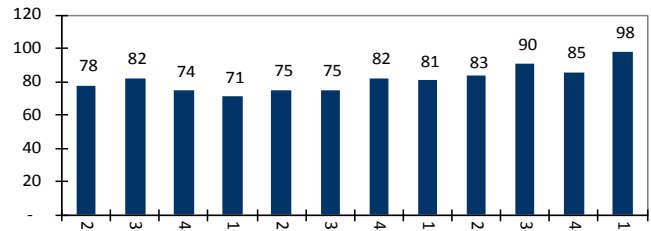
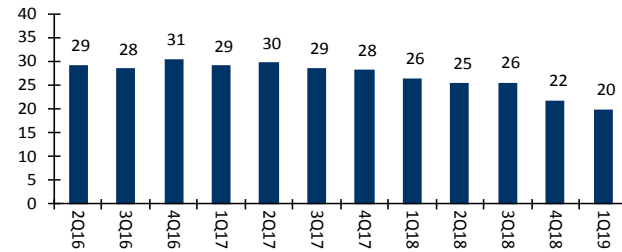
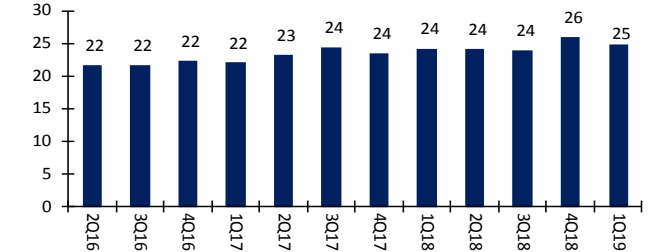
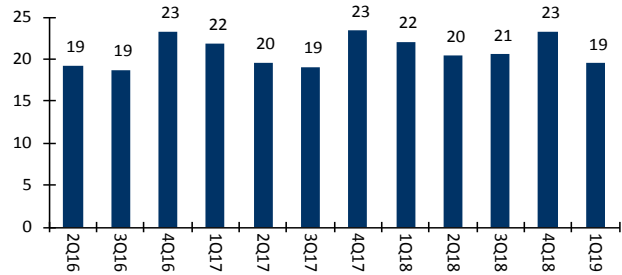
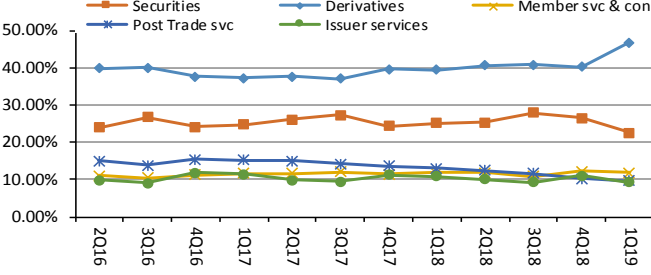
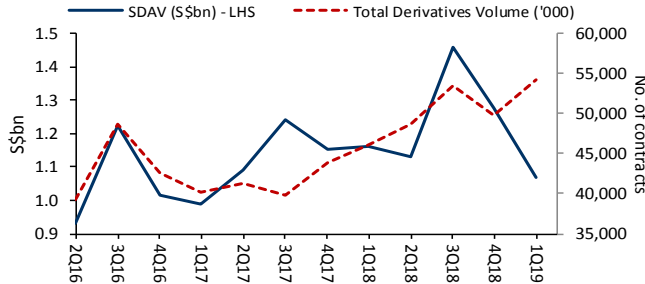
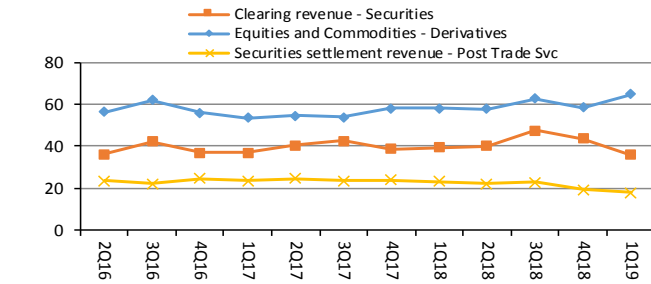
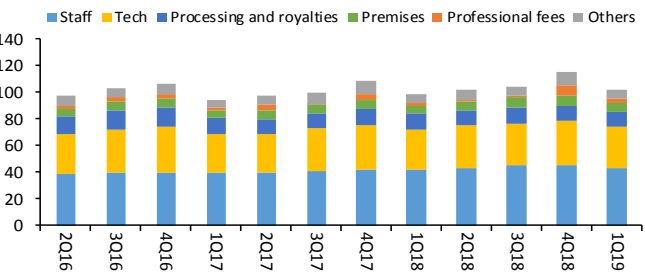
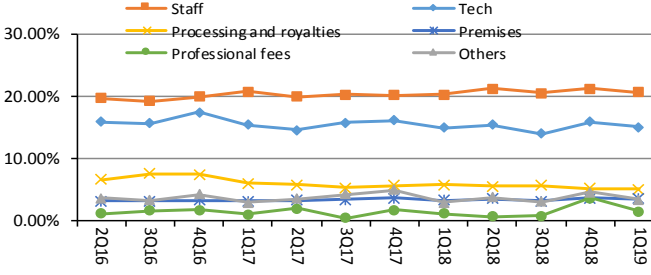
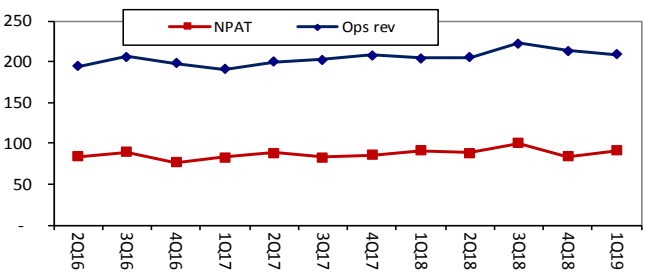
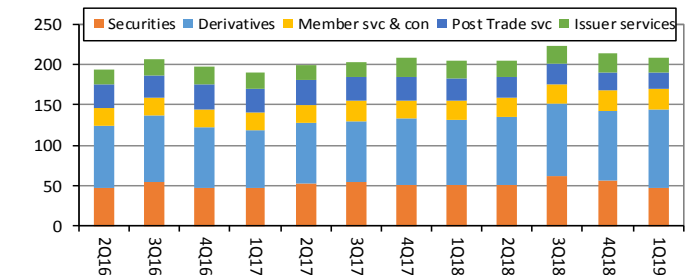
Change in valuation method

We have changed our valuation method from the Discounted Cash Flow Model to Price-to-earnings ratio multiple. We believe the P/E ratio is a more suitable investment valuation indicator for SGX due to its consistent generation of positive, predictable and robust earnings quality.

Table 1: Asian Exchanges

Bloomberg Ticker	Stock	Results Currency	Share Px (local)	Mkt Cap (US\$ m)	PE (x)		EPS Growth		EV/EBITDA (x)	EBITDA (%)	ROE (%)	Dividend Yield
					Yr0	Yr1	Yr1	Yr2				
SGX SP EQUITY	Singapore Exchange	SGD	6.93	5,387	20.4	19.4	5.5%	6.1%	13.0	57.5	34.1	4.3%
388 HK EQUITY	Hong Kong Exchange	HKD	209	33,341	28.9	27.8	26.1%	13.1%	11.6	83.0	23.7	2.6%
BURSA MK EQUITY	Bursa Malaysia	MYR	7.8	1,515	27.5	26.2	7.9%	3.2%	13.2	58.4	25.3	1.7%
8697 JP EQUITY	Japan Exchange Group	JPY	1915	9,135	20.0	20.5	-1.1%	-0.3%	12.0	66.4	20.2	3.5%
ASX AU EQUITY	ASX Ltd	AUD	59.42	8,182	25.8	23.8	8.4%	4.2%	2.9	75.8	11.3	3.6%
				57,560	26.2	25.2	16.9%	8.8%	10.6	76.3	22.4	3.0%

Source: Bloomberg, PSR

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

Figure 11: Operating Revenue and NPAT (\$M)

Figure 12: Total Revenue


Financials

Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Securities	205	205	221	213	221
Derivatives	325	303	340	403	447
Others	288	293	284	279	284
Operating revenue	818	801	845	895	952
Operating expenses	409	399	420	445	477
Operating profit	409	402	425	450	475
Other gains/(losses)	6	6	11	11	10
Associates & JVs	1	1	1	1	1
Profit Before Tax	416	409	437	461	486
Taxation	(67)	(69)	(74)	(79)	(83)
Net Income, reported	349	340	363	383	403
Net Income, adj.	349	340	363	383	403

Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	32.6	31.8	33.9	35.8	37.7
DPS	28.0	28.0	30.0	31.5	33.0
BVPS	91.2	92.5	96.5	102.4	100.9
Payout ratio (%)	86%	88%	88%	88%	88%

Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax and Assoc.&JV	415	407	436	460	485
Depreciation & Amortisation	60	58	61	52	51
WC changes	17	(21)	(7)	(26)	14
Others	2	3	2	(1)	0
Cash generated from ops	494	447	492	486	550
Tax paid	(70)	(67)	(65)	(79)	(83)
Cashflow from ops	423	380	427	407	467
CFI					
CAPEX, net	(74)	(60)	(79)	(59)	(72)
Others	11	(87)	(11)	(24)	10
Cashflow from investments	(63)	(147)	(90)	(84)	(62)
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	(332)	(300)	(300)	(401)	(337)
Others	(13)	(9)	(8)	(3)	0
Cashflow from financing	(345)	(308)	(308)	(404)	(337)
Net change in cash	15	(76)	29	(81)	67
CCE, end	806	736	832	640	690

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	61	62
Software	155	159	174	186	202
Intangible assets	26	64	61	60	59
Goodwill	10	88	89	88	88
Others	55	37	39	112	112
Total non-current assets	307	429	435	507	523
Accounts receivables	930	815	827	879	926
Cash	806	736	772	640	690
Securities clearing funds	60	60	60	60	60
Others	3	1	22	24	24
Total current assets	1,799	1,613	1,680	1,603	1,700
Total Assets	2,105	2,041	2,115	2,111	2,223

LIABILITIES

Accounts payables	1,013	892	891	903	949
Short term loans	0	0	0	0	0
Others	85	82	95	97	97
Total current liabilities	1,098	973	986	999	1,045
Long term loans	0	0	0	0	0
Others	18	35	33	31	31
Total non-current liabilities	18	35	33	31	31
Total Liabilities	1,116	1,009	1,019	1,031	1,077

EQUITY

Non-controlling interests	0	0	0	0	0
Shareholder Equity	990	1,033	1,096	1,080	1,147

Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	22.2	23.8	22.3	19.4	18.4
P/B (X)	7.9	8.2	7.8	6.8	6.9
EV/EBITDA (X), adj.	8.8	9.4	8.9	7.8	7.4
Dividend Yield (%)	3.9%	3.7%	4.0%	4.5%	4.8%

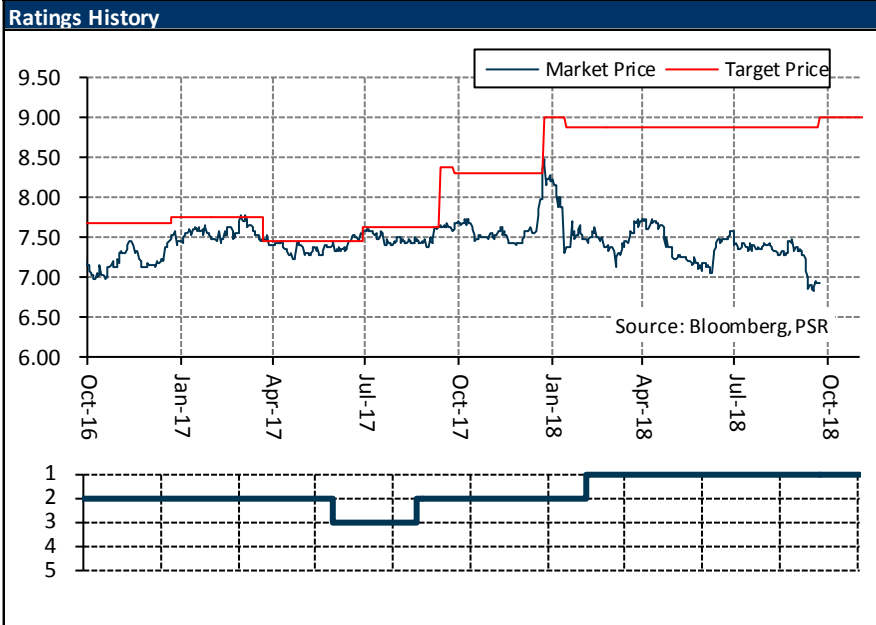
Growth & Margins (%)

Growth					
Revenue	10.2%	-2.1%	5.5%	6.0%	6.4%
EBITDA	10.0%	-6.8%	12.1%	6.1%	7.1%
EBIT	10.2%	-2.1%	5.5%	5.8%	5.6%
Net profit, adj.	0.0%	-2.7%	6.9%	5.4%	5.3%
Margins					
EBITDA margin	57.3%	57.4%	57.5%	56.1%	55.2%
EBIT margin	50.0%	50.2%	50.3%	50.2%	49.9%
Net profit margin	42.7%	42.4%	43.0%	42.8%	42.3%

Key Ratios

ROE (%)	35.5%	33.6%	34.1%	35.2%	36.2%
ROA (%)	17.9%	16.4%	17.5%	18.1%	18.6%

Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
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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

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