

Singapore Exchange Limited – 1QFY12 Results

Phillip Securities Research Pte Ltd
18 October 2011

Exchange Singapore Stock Exchange
Sector Investment Services
Reuters SGX SI
Bloomberg SGX SP
Poems SGX

BUY (Maintained)

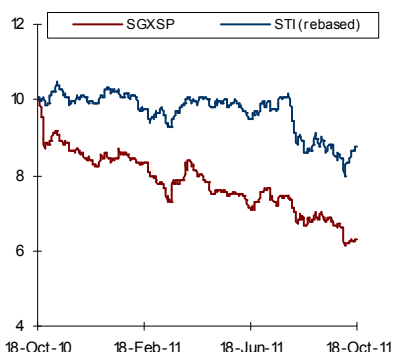
Closing Price
SGD 6.29
Target Price
SGD 8.45 (34%)

Price

Last Price	6.29
52w k High (10/18/2010)	10.16
52w k Low (10/5/2011)	6.11
Shares Outstanding (mil)	1071.566
Market Cap (\$ mil)	6740.15
Avg. Daily Turnover (mil)	18.17
Free float (%)	70.80
PE (X)	21.78
PB (X)	8.15

Price performance %

	1M	3M	6M
Absolute	-8.6%	-12.8%	-22.2%
Relative	-8.2%	-3.0%	-10.5%



- SGX operating revenue increased by 12% y-y to S\$178m, net profit improved by 18% y-y to S\$88m and EPS rose 18% y-y to 8.2 cents. SGX results meet 26% of our FY12 forecast.
- SGX reported lower Securities and Issuer Services revenue (versus our estimates) due to poor trading conditions however, the dip in performance was mitigated by higher revenue from Derivatives, Market data, Member Services and Depository Services segments.
- SGX meets our expectations and we expect the rest of the revenue segments to show relative resilience against market volatility hence we maintain our Buy call and fair value estimate of S\$8.45. At current price level, SGX yields 4.3% dividend yield with potential capital appreciation of 34% base on 27x PE for FY12 earnings.

Table 1. Actual first quarter results against PSR's FY12 estimates

Business Segment	Actual	PSR FY12	
\$'000	1QFY12	estimates	%
Securities	71,965	298,971	24.1%
Derivatives Clearing	43,041	147,428	29.2%
Market data	9,121	33,600	27.1%
Member svcs & c	11,414	41,829	27.3%
Dep Svcs	26,843	96,000	28.0%
Issuer Svcs	15,738	65,829	23.9%
Rev	178,446	685,714	26.0%
Op. Exp	74,548	281,143	26.5%
Net profit	87,510	337,215	26.0%
EPS (cents)	8.2	31.54	26.0%

Source: Company, Phillip Securities Research

In 1QFY12, SGX EPS is 8.2 cents. With the assumption that SGX is on track to meet our full year EPS of 31.54 cents and base on the current share price of S\$6.29, market is pricing SGX at 20x PE which is towards a more pessimistic scenario as opposed to our more optimistic outlook.

In Figures 1 to 6, we showed the revenue trends of the various business segments and we note that SGX revenue streams are more differentiated than it was in the past. Previously, doldrums impacted securities and issuer revenue and resulted in lower earnings for the company but as SGX embarked on the pursuit of HFT's business, dark pools, more varied derivatives contracts and expansion of members' pool etc, the earnings from market data, member services and depository have reached unprecedented levels.

Even during times of market volatility, it is unlikely that members stop paying their dues or HFT eased off their trading significantly (as opposed to retail investors who tend not to thrive during uncertain times).

Conso' Ending	NPAT (\$'000)	Basic EPS (SG cents)	DPS (SG cents)	BV (SG cents)	ROE (%)	P/E (X)	Yield (%)	P/BV (x)
06/09 A	305,657	28.74	26	72.67	39%	21.89	4.13	8.66
06/10 A	320,074	29.86	27	76.68	39%	21.06	4.29	8.20
06/11 A	294,853	27.64	27	77.25	36%	22.76	4.29	8.14
06/12 E	337,215	31.54	27	98.25	32%	19.95	4.29	6.40
06/13 E	330,449	30.84	27	118.52	26%	20.40	4.29	5.31

Source: Company, Phillip Securities Research

Major Shareholders (18 October 11)	%
1 SEL holdings	23.33%
2 TSE	4.99%
3 Vanguard Group	1.44%

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Thus, we hold the view that the new mix in business revenue is more resilient compared to the past and from the fundamental perspective, to accord SGX a significantly lower PE to reflect the bearish outlook appears unfair to company's valuation.

Table 2: Price and PE range 2006 – 2011

Year	Price Range (\$)		EPS (SGD cents)	PE range (x)	
	Low	High		Low	High
2011	6.26	8.73	29.51	21.2	29.6
2010	7.05	10.26	29.9	23.6	34.3
2009	4.00	8.91	28.55	14.0	31.2
2008	4.15	13.36	44.78	9.3	29.8
2007	5.45	17.2	39.7	13.7	43.3
2006	2.08	4.9	17.4	12.0	28.2

Source: Bloomberg, Phillip Securities Research

Fig 1. Securities Revenue

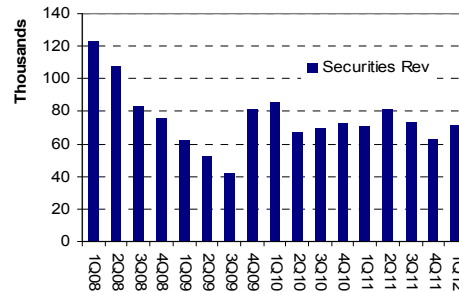


Fig 2. Derivatives Clearing Revenue

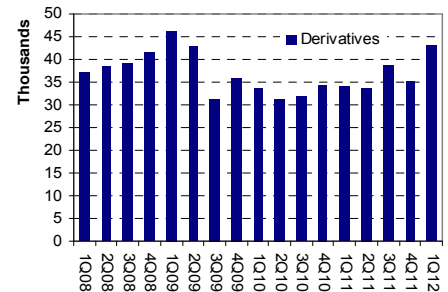


Fig 3. Market Data Revenue

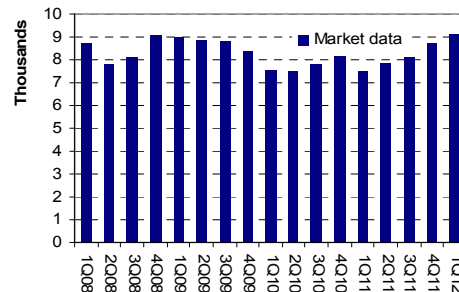


Fig 4. Member Services Revenue

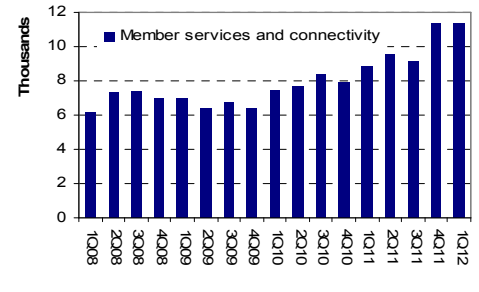


Fig 5. Depository Revenue

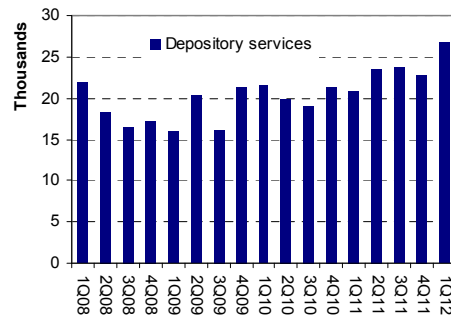


Fig 6. Issuer Services Revenue

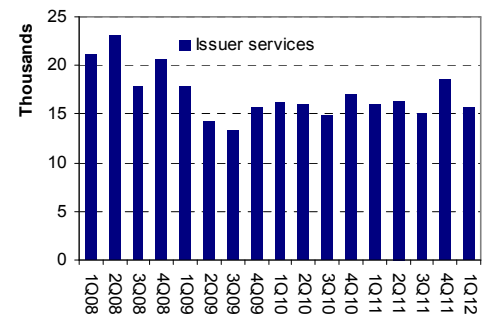
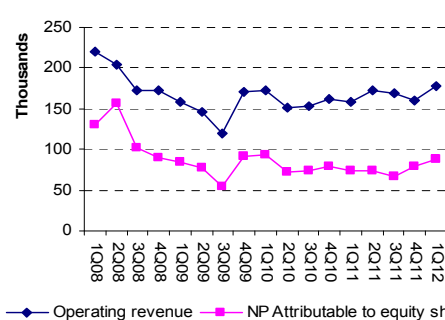


Fig 7. Operating Revenue and NPAT



Financial Statements

Income Statement (S\$'000)	06/10A	06/11A	06/12E	06/13E
Securities	295,964	288,978	298,971	293,632
- Securities clearing revenue	236,882	225,962	233,611	229,439
- Securities related processing revenue	2,384	4,366	4,217	4,142
- Access revenue	56,698	58,650	61,144	60,052
Derivatives	131,211	141,963	147,428	144,796
Market data	32,599	32,273	33,600	33,000
Member services and connectivity	29,468	39,257	41,829	41,082
- Terminal and connection revenue	21,926	31,032	31,790	32,044
- Membership revenue	7,542	8,225	10,039	9,038
Depository services	82,370	90,633	96,000	94,286
- Securities settlement and revenue	50,606	63,422	58,560	57,231
- contracts processing revenue	25,800	20,967	30,240	29,700
- depository management revenue	5,964	6,244	7,200	7,354
Issuer services	64,105	66,017	65,829	64,653
- Listing revenue	36,967	38,878	35,547	34,913
- corporate action and other revenue	27,138	27,139	30,281	29,740
Others	3,997	1,563	2,057	2,020
Operating revenue	639,714	660,684	685,714	673,469
Staff	110,770	107,019	118,080	115,971
Technology	82,584	108,264	92,777	91,120
Processing and royalties	23,779	26,675	25,303	24,851
Premises	20,278	18,835	19,680	19,329
Professional fees	10,777	9,945	11,246	11,045
Others	13,176	16,441	14,057	13,806
Operating expenses	261,364	287,179	281,143	276,122
Profit from operating activities	378,350	373,505	404,571	397,347
Other gains/(losses)	6,664	-15,241	2,772	1,823
Profit before tax and share of results of joint ventures and associates	385,014	358,264	407,343	399,170
Share of results of joint ventures and associates	-1,741	-2,692	-2,037	-1,996
Profit before tax	383,273	355,572	405,307	397,174
Tax	-63,199	-60,719	-68,091	-66,725
NPAT attributable to SH	320,074	294,853	337,215	330,449

Cashflow Statement (S\$'000)	06/10A	06/11A	06/12E	06/13E
Net cash provided by operating activities	375,091	81,818	388,042	380,206
Net cash used in investing activities	-43,587	-21,067	-41,264	-37,173
Net cash used in financing activities	-304,075	-42,526	-128,320	-128,576
Net incr/(decr) in cash and equivalents	27,429	18,225	218,457	214,456
Decrease in cash set aside for Singapore	38,500	305	0	0
Cash and equivalents at the beginning	470,641	526,252	693,063	911,520
Cash and cash equivalents at the end	536,570	544,782	911,520	1,125,977

Source: Company, Phillip Securities Research

Balance Sheet (S\$'000)	06/10A	06/11A	06/12E	06/13E
Cash and cash equivalents	672,591	693,063	911,520	1,125,977
Trade and other receivables	463,660	563,907	608,716	638,862
Others	51,700	30,899	30,000	30,000
Total current assets	1,187,951	1,287,869	1,551,135	1,795,738
Financial assets, available-for-sale	73,256	73,256	73,256	73,256
Property, plant and equipment	9,590	29,805	29,837	29,904
Software	121,032	118,064	129,950	137,338
Club memberships	296	287	287	287
Investments in associated companies	4,145	4,684	4,684	4,684
Goodwill	0	0	3,613	3,613
Deferred tax assets	4,846	15	15	15
Total non current assets	213,165	229,724	241,642	249,097
Total assets	1,401,116	1,517,593	1,792,777	2,044,834
Trade and other payables	500,031	607,210	655,787	688,576
derivative financial instruments	444	0	0	0
Taxation	70,112	66,413	66,413	66,413
Provisions	7,150	7,522	7,522	7,522
Debt	0	0	0	0
Deferred tax liabilities	7,457	12,469	12,469	12,469
Total liabilities	585,194	693,614	742,191	774,980
Net assets	815,922	823,979	1,050,586	1,269,854
Share capital	409,777	419,553	419,553	419,553
Treasury shares	-41,775	-31,156	-31,156	-31,156
Derivatives clearing fund reserve	34,021	34,021	34,021	34,021
Securities clearing fund reserve	25,000	25,000	25,000	25,000
Retained profits	194,624	201,321	410,216	612,089
Proposed dividends	167,869	160,090	160,090	160,090
Others	26,406	15,150	32,862	50,258
Total equity	815,922	823,979	1,050,586	1,269,854

Ratios	06/10A	06/11A	06/12E	06/13E
PE (x)	21.06	22.76	19.95	20.40
PB (x)	8.20	8.14	6.40	5.31
EPS (cents)	29.86	27.64	31.54	30.84
NAV (cents)	76.68	77.25	98.25	118.52
Dividend (cents)	27	27	27	27
DY (%)	4.29	4.29	4.29	4.29
ROE	39%	36%	32.10%	26.02%
ROA	22.8%	19.4%	18.8%	16.2%

Ratings History

Singapore Stock Exchange - SGX

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	18 Oct 2011	6.29	8.45	1Q12
BUY	3 August 2011	7.35	8.45	4Q11
HOLD	20 April 2011	7.95	8.77	3Q11
BUY	11 April 2011	8.38	9.88	Update
BUY	19 Jan 2011	8.50	9.88	2Q11
BUY	27 Oct 2010	8.72	10.50	Update
BUY	19 Oct 2010	10.04	10.50	1Q11
BUY	8 Oct 2010	9.42	10.50	Upgrade fair value
BUY	3 August 2010	7.79	9.00	4Q10
BUY	28 June 2010	7.57	9.00	Initiation

Phillip Research Stock Selection Systems	TRADING BUY	Share price may exceed 10% on the upside over the next 3 months, however longer-term outlook remains uncertain
	BUY	>15% upside from the current price
	HOLD	-10% to 15% from the current price
	SELL	>10% downside from the current price
	TRADING SELL	Share price may exceed 10% on the downside over the next 3 months, however longer-term outlook remains uncertain
<p>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</p>		

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