

Singapore Exchange Limited

Derivatives growth the slowest in almost two years

SINGAPORE | FINANCE | UPDATE

- HKEX announced the launch of futures contracts on MSCI China A Index.
- SGX's February Derivatives Daily Average Volume (DDAV) growth was flat at 1.4% YoY, the lowest in almost two years.
- SGX's derivatives business accounts for c.49% of total revenue in 6M19.
- We downgrade to Accumulate at a lower TP of S\$8.17** (previously S\$8.36) and lowered our FY19e earnings by 2%. We peg our TP to 23.2x P/E, at SGX's 5-year mean.

Monthly statistical updates

DDAV growth for January and February contracted to 2.4% YoY and 1.4% YoY respectively as compared to 24.1% YoY jump in 2Q19 (Oct'18 – Dec'18). The recovering global markets at the start of 2019 was a stark contrast to extremely volatile conditions in 2018. As a result, there has been a contraction in derivatives volume due to lower hedging activities. Hence, we cut our forecast for FY19e derivatives revenue growth from 27.4% YoY to 22.1% YoY. Meanwhile, SDAV showed no signs of recovery and contracted 38.6% YoY in February.

Recent events

The Hong Kong Stock Exchange (HKEX) announced on 11 March 2019 its plans to launch futures contracts on the MSCI China A Index, subject to relevant regulatory approvals. The MSCI futures contracts will allow investors to hedge their A-share equity exposures. Currently, SGX's FTSE China A50 Index Futures is the only offshore futures contract tracking the Chinese A-share market.

Impact on SGX

SGX's derivatives business contributed to 50% of total revenue in 6M19 with the main driver being FTSE China A50 Index Futures which accounted for 43% of total trading volume YTD which puts SGX in a vulnerable position. If HKEX succeeds in its plans to introduce MSCI China A Index futures, SGX could face some competition as some customers will make the switch to HKEX and derivatives revenue might be dampened in the long term. SGX's China A50 Index futures represents about 13% of total revenue. Assuming SGX loses 50% of its China A50 revenue, the impact to PATMI is around 8%.

However, we do not expect HKEX's plans to have a significant impact on SGX's derivatives revenue for the FY19-20. Firstly, if HKEX obtains relevant approvals, the launch should be in November 2019. Secondly, HKEX will take months to build up liquidity and onboarding of clients' systems. Thirdly, SGX's derivatives platform provides high customer retention due to its (i) deep liquidity as a first mover; (ii) allows customers to carry out margin offsets across their various derivatives assets; (iii) caters to customers' needs to hedge currency exposures with SGX's diverse FX exchange especially the USD-CNH and INR-USD FX futures.

Outlook

HKEX's plans to introduce futures contracts on the MSCI China A Index has been in the works for the past 12-18 months, and the announcement did not come as a surprise for SGX. HKEX's plans could create a larger ecosystem for China equity derivatives which should deepen liquidity and increase volumes with arbitrage between the exchanges.



StocksBnB.com

19 March 2019

Accumulate (Downgraded)

LAST DONE PRICE	SGD 7.31
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.17
TOTAL RETURN	16.1%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN):	1070
MARKET CAP (USD mn / SGD mn):	5790 / 7821
52 - WK HI/LO (SGD):	8.05 / 6.72
3M Average Daily T/O (mn):	2.70

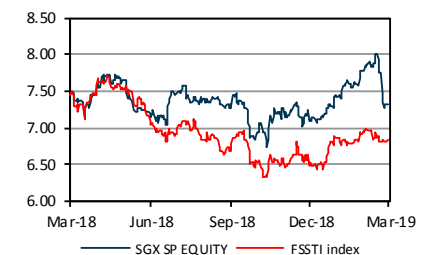
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.36%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(6.2)	4.0	2.2
STIRETURN	(135)	5.91	(4.90)

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	874	931
EBITDA (SGD mn)	460	486	498	520
NPAT (SGD mn)	340	363	377	399
EPS (Cents)	318	33.9	35.2	37.3
PER, (X)	23.8	22.3	20.8	19.6
P/BV, (X)	8.2	7.8	7.1	7.3
DPS (Cents)	28.0	30.0	31.5	33.0
Div Yield, (%)	4%	4%	4%	5%
ROE, (%)	33.6%	34.1%	34.8%	36.1%

Source: Bloomberg, Company, PSR

Valuation Method

P/E Multiple @23.2x

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Potential risks

(i) Larger than expected switch of customers from SGX to HKEX, (ii) quickened regulatory approval timeline for HKEX’s plans, and (iii) HKEX competes on pricing.

Potential catalysts

(i) Introduction of new derivative products by SGX; (ii) delayed the launch of HKEX’s MSCI China A Index futures; (iii) stronger than expected growth in DDAV and SDAV.

List of Abbreviations:

- SDAV – Securities daily average value
- DDAV – Derivatives daily average volume
- SW – Standard Warrants
- 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

Investment Actions

We downgrade to Accumulate at a lower TP of S\$8.17 (previously S\$8.36) as we peg our TP to an unchanged 23.2x P/E, at SGX’s 5-year mean. The reduction in TP was due to our lowered forecast for FY19e derivatives revenue growth from 27.4% YoY to 22.1% YoY which cut our FY19e earnings by 2%.

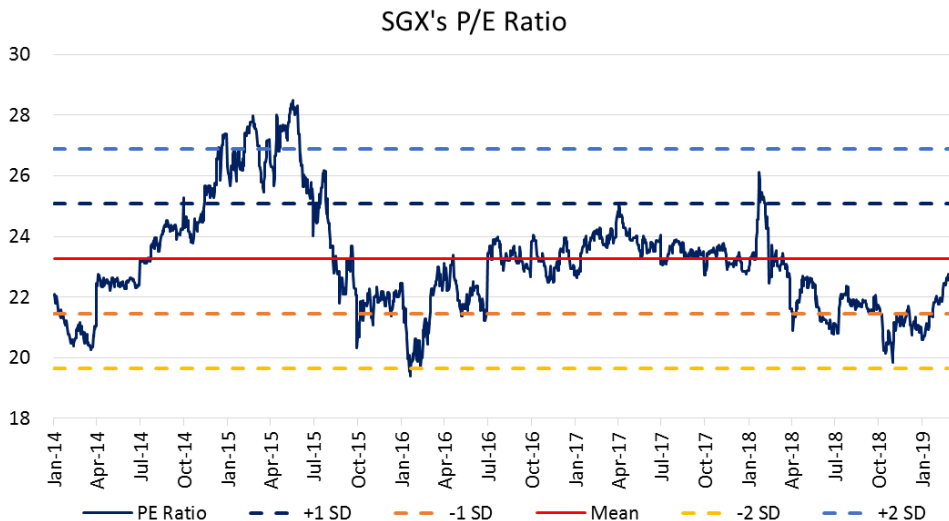
Chart 1: Peer comparison

Stock	Currency	Last Price (Local Currency)	Market Cap (USDmn)	Forward P/E			Forward P/B			EV/EBITDA			Dividend Yield (%)		ROE (%)		
				Yr 0	Yr 1	Yr 2	Yr 0	Yr 1	Yr 2	Yr 0	Yr 1	Yr 2	Yr 1	Yr 2	Yr 0	Yr 1	Yr 2
Asian Exchanges																	
SINGAPORE EXCH	SGD	7.31	5,790	21.2	20.9	19.8	8.2	7.2	6.8	14.4	14.2	13.4	4.3	4.4	38.6	34.5	35.8
BURSA MALAYSIA	MYR	6.99	1,385	24.6	24.7	23.6	6.4	6.6	6.2	12.7	11.9	11.5	4.0	4.0	26.0	25.6	26.3
JAPAN EXCHANGE G	JPY	1,988.00	9,590	20.9	21.1	21.2	3.9	3.5	N/A	11.8	12.2	12.1	2.9	2.8	19.3	18.3	16.9
ASX LTD	AUD	69.61	9,573	28.0	27.5	26.9	3.5	3.5	3.4	14.8	14.4	13.8	3.9	3.3	11.8	12.4	12.8
Market Cap Weighted Average:				23.7	23.6	23.1	4.8	4.5	3.1	13.5	13.4	13.0	3.6	3.4	21.2	20.1	20.1
Large-Cap Asian Exchange																	
HKEX	HKD	278.00	44,290	30.2	33.5	29.8	8.5	8.2	7.8	20.8	18.3	16.4	2.7	3.0	23.9	24.9	27.0
US and European Exchanges																	
LONDON STOCK EX	GBP	4,781.00	22,094	29.4	24.8	21.6	5.0	4.3	3.8	16.9	14.9	13.5	1.4	1.6	14.6	17.9	18.0
DEUTSCHE BOERSE	EUR	115.05	24,795	23.5	19.1	17.4	4.4	3.9	3.5	15.8	13.0	11.9	2.6	2.8	17.0	20.7	21.8
EURONEXT NV	EUR	56.30	4,470	16.2	16.0	14.8	5.0	4.2	3.6	11.5	10.2	9.8	3.1	3.3	28.7	28.7	27.3
CBOE GLOBAL MARK	USD	95.83	10,694	24.7	19.9	17.9	3.3	3.2	3.0	14.4	14.0	13.1	1.4	1.5	13.3	16.0	17.6
CME GROUP INC	USD	169.89	60,786	29.7	24.2	22.0	2.3	2.3	2.3	22.3	18.9	17.5	3.3	4.0	8.1	9.2	10.0
NASDAQ INC	USD	84.24	13,935	18.6	16.5	15.2	2.6	2.4	2.3	13.7	12.4	11.8	2.2	2.4	8.1	14.7	15.4
INTERCONTINENTAL	USD	74.61	42,416	22.8	19.6	17.6	2.5	2.4	2.3	15.5	14.5	13.3	1.4	1.6	11.6	12.2	13.1
Market Cap Weighted Average:				25.7	21.4	19.3	3.1	2.9	2.7	17.7	15.5	14.3	2.3	2.7	11.8	13.9	14.6

Source: Bloomberg, PSR

Extracted as of: 19-Mar-19

Chart 2: SGX is trading at 21.1x forward P/E, near 1 s.d. below its historical mean of 23.3x



Source: Bloomberg, PSR

Financials

Income Statement

Y/E Jun, SGD mn	FY17	FY18	FY19e	FY20e	FY21e
Securities	205	221	192	193	193
Derivatives	303	340	415	469	547
Others	293	284	267	269	270
Operating revenue	801	845	874	931	1,009
Operating expenses	399	420	430	460	498
Operating profit	402	425	444	472	511
Other gains/(losses)	6	11	11	9	9
Associates & JVs	1	1	0	1	1
Profit Before Tax	409	437	455	481	521
Taxation	(69)	(74)	(78)	(82)	(89)
Net Income, reported	340	363	377	399	432
Net Income, adj.	340	363	377	399	432

Per share data (SGD Cents)

Y/E Jun	FY17	FY18	FY19e	FY20e	FY21e
EPS, reported	31.8	33.9	35.2	37.3	40.4
DPS	28.0	30.0	31.5	33.0	35.0
BVPS	92.5	96.5	102.4	100.2	106.1
Payout ratio (%)	88%	88%	89%	89%	87%

Cash Flow

Y/E Jun, SGD mn	FY17	FY18	FY19e	FY20e	FY21e
CFO					
Profit before tax and Assoc.&JV	407	436	455	480	520
Depreciation & Amortisation	58	61	55	48	52
WC changes	(21)	(7)	(40)	16	22
Others	3	2	(1)	1	1
Cash generated from ops	447	492	469	546	595
Tax paid	(67)	(65)	(78)	(82)	(89)
Cashflow from ops	380	427	391	463	506
CFI					
CAPEX, net	(60)	(79)	(55)	(67)	(78)
Others	(87)	(11)	(24)	9	9
Cashflow from investments	(147)	(90)	(79)	(58)	(69)
CFF					
Loans, net of repayments	0	0	0	0	0
Dividends	(300)	(300)	(401)	(337)	(353)
Others	(9)	(8)	(7)	0	0
Cashflow from financing	(308)	(308)	(408)	(337)	(353)
Net change in cash	(76)	29	(96)	68	84
CCE, end	736	832	633	682	720

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	FY17	FY18	FY19e	FY21e	FY21e
ASSETS					
PPE	80	72	57	56	57
Software	159	174	186	201	206
Intangible assets	64	61	58	57	57
Goodwill	88	89	86	86	86
Others	37	39	111	111	111
Total non-current assets	429	435	498	512	517
Accounts receivables	815	827	735	744	972
Cash	736	772	633	682	852
Securities clearing funds	60	60	60	60	60
Others	1	22	24	24	24
Total current assets	1,613	1,680	1,451	1,510	1,908
Total Assets	2,041	2,115	1,950	2,022	2,425

LIABILITIES

Accounts payables	892	891	750	761	1,041
Short term loans	0	0	0	0	0
Others	82	95	95	95	306
Total current liabilities	973	986	845	855	1,347
Long term loans	0	0	0	0	0
Others	35	33	32	32	32
Total non-current liabilities	35	33	32	32	32
Total Liabilities	1,009	1,019	877	887	1,379

EQUITY

Non-controlling interests	0	0	0	0	0
Shareholder Equity	1,033	1,096	1,073	1,135	1,047

Valuation Ratios

Y/E Jun	FY17	FY18	FY19e	FY20e	FY21e
P/E (X), adj.	23.8	22.3	20.8	19.6	18.1
P/B (X)	8.2	7.8	7.1	7.3	6.9
EV/EBITDA (X), adj.	9.4	8.9	8.4	8.0	7.4
Dividend Yield (%)	3.7%	4.0%	4.3%	4.5%	4.8%

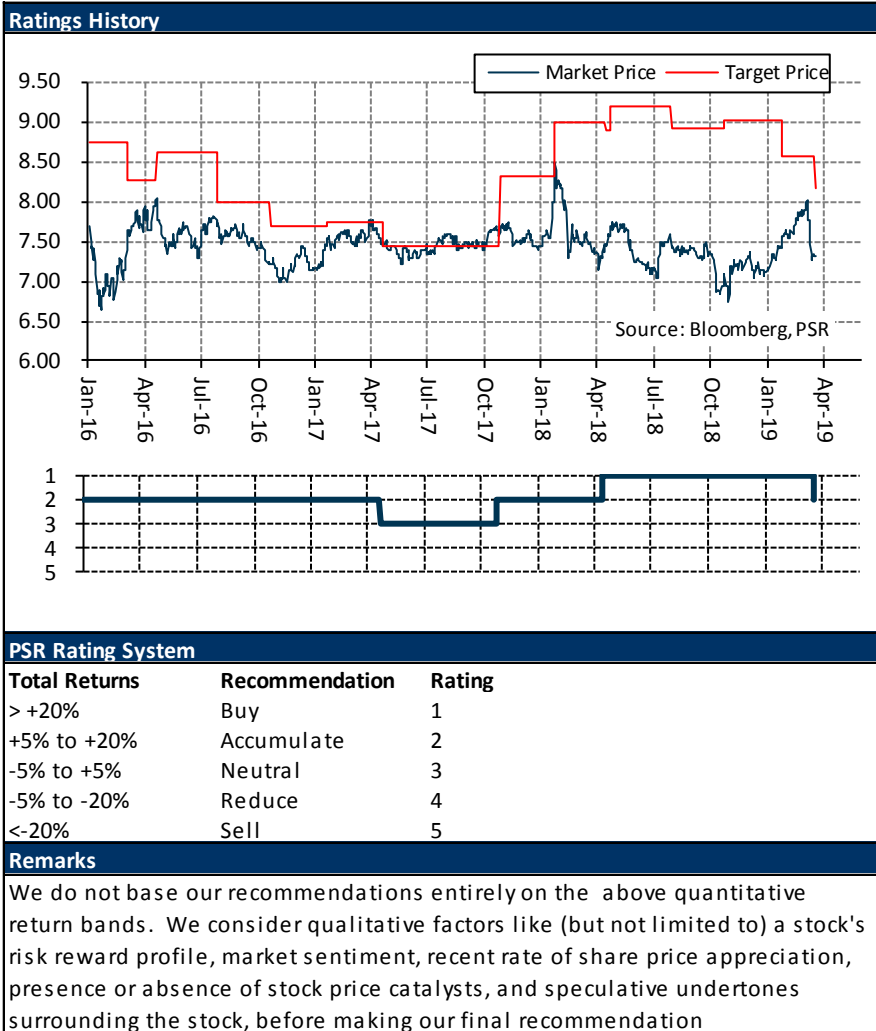
Growth & Margins (%)

Growth					
Revenue	-2.1%	5.5%	3.5%	6.5%	8.4%
EBITDA	-6.8%	12.1%	2.5%	6.9%	8.4%
EBIT	-2.1%	5.5%	4.5%	6.3%	8.4%
Net profit, adj.	-2.7%	6.9%	3.8%	5.8%	8.3%
Margins					
EBITDA margin	57.4%	57.5%	57.0%	55.8%	55.8%
EBIT margin	50.2%	50.3%	50.8%	50.6%	50.6%
Net profit margin	42.4%	43.0%	43.1%	42.8%	42.8%

Key Ratios

ROE (%)	33.6%	34.1%	34.8%	36.1%	39.6%
ROA (%)	16.4%	17.5%	18.6%	20.1%	19.4%

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