



Singapore Exchange Limited

Record derivatives volume to support earnings growth



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SINGAPORE | FINANCE | 3Q19 RESULTS

26 April 2019

- 3Q19 revenue and net profit were in line with our estimates.
- Derivatives volume in 3Q19 surged 12% YoY, driven by China A50 futures and iron ore derivatives. SDAV plunged 30% from a high base last year.
- Quarterly dividend per share declared at 7.5 cents, up 2.5 cents.
- We maintain Accumulate at a lower TP of S\$8.09 (previously S\$8.17)** as we peg our TP to 21.4x P/E, 1 SD below SGX's 5-year mean. The lower TP is due to higher DDAV partly offset by lower SDAV.

Results at a glance

(SGD mn)	3Q19	3Q18	YoY	2Q19	QoQ	Comments
Securities	43.3	61.7	-30%	45.2	-4%	SDAV decreased 30% from a high base in 3Q18. Average clearing fees contracted 2% at 2.80 bps (3Q18: 2.87 bps).
Derivatives	119.0	90.5	32%	112.9	5%	Derivatives volume grew 12% YoY (3rd quarter of record volume) due to China A50 futures and iron ore derivative contracts.
Others	66.4	70.0	-5%	66.1	0%	Issuer Services and Post Trade Services declined 22% YoY and 17% YoY respectively.
Total Revenue	228.8	222.2	3%	224.2	2%	
Opex	110.6	104.4	6%	110.5	0%	Due to higher staff costs as head count rose 4% YoY and a \$4m increase in legal and consultancy fees.
Net Profit	99.7	100.5	-1%	96.5	3%	
Net Profit Margin	43.0%	44.7%	-4%	42.4%	1%	
SDAV	1,024.3	1,460.3	-30%	974.0	5%	Underperformance in line with global equities market.
DDAV ('000 units)	1,039.1	921.9	13%	984.5	6%	

Source: Company, PSR

The Positives

+ **Derivatives achieved a third consecutive quarter of record revenue at S\$112.9m, offsetting the decline in equities (-30% YoY) and fixed income (-12.6% YoY) revenue.** Derivatives volume grew 12% YoY, consisting of higher trading volumes in key equity derivatives (+8% YoY), record FX futures volume (+48% YoY) and iron ore derivatives (+30% YoY). Volume was boosted by China A50, MSCI NTR product suite, growth in passive investing and greater need for hedging with rising exposure into Asia.

The average fee per contract rose 5% from \$1.06 to \$1.11 due to the pulling back of rebates for China A50 index futures and 30% higher volume for the higher-priced iron ore derivatives. Collateral management income rose 62% YoY from higher open interest and margin balances from increased demand for risk management solutions. Derivatives contributed 52% to total revenue in 3Q19. We forecast a higher FY20e DDAV of 1,107k, 15% above 9M18's DDAV of 963k.

The Negatives

- **Equities revenue continues to contract, falling 30% YoY, the slowest in five years.** The significant fall in SDAV was partly due to a high SDAV of \$1.45bn in 3Q18, the highest since 4Q13. In addition, average clearing fees declined from 2.72 bps to 2.67. Our 9M19e SDAV of 1.08bn was 5% above the actual 9M19 SDAV of \$1.02bn, hence we lower our FY19e SDAV estimate from S\$1.08bn to S\$1.02bn. We pen in a more conservative SDAV for FY20e of S\$1.02bn, 5% lower than the previous SDAV of S\$1.07bn.

Accumulate (Maintained)

LAST DONE PRICE	SGD 7.37
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.09
TOTAL RETURN	14.1%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1070
MARKET CAP (USD mn / SGD mn) :	5798 / 7895
52 - WK HI/LO (SGD) :	8.05 / 6.72
3M Average Daily T/O (mn) :	3.4

MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.37%
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PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.4)	(3.2)	(17)
STI RETURN	5.42	5.20	(2.55)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY17	FY18	FY19e	FY20e
Revenue (SGD mn)	801	845	890	962
EBITDA (SGD mn)	460	486	510	523
NPAT (SGD mn)	340	363	384	405
EPS (Cents)	318	33.9	35.9	37.8
PER, (X)	23.2	21.7	20.6	19.5
P/BV, (X)	8.0	7.6	7.2	7.3
DPS (Cents)	28.0	30.0	31.5	33.0
Div Yield	3.8%	4.1%	4.3%	4.5%
ROE	33.6%	34.1%	35.3%	36.3%

Source: Bloomberg, Company, PSR

Valuation Method

P/E Multiple @21.4x

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Other Updates

SGX-IISL arbitration

Both NSE and SGX have agreed on a proposition and submitted a joint proposal to their respective authorities. No additional details were announced at this point and we await further announcement from SGX.

Competition from Hong Kong Exchange

SGX does not expect absolute volume for China A50 to be impacted although market share may decrease as Hong Kong Exchange joins in as a competitor. A vast majority of SGX's clients trade a range of products and SGX expects its quality service and offering of margin offsets across various derivatives products with a good track record to be strong enough to retain clients. Furthermore, with the liberalization of the Chinese market, higher onshore activity usually creates higher offshore activity as well, creating a larger market for both exchanges.

Outlook

We believe that continued stock-market volatility should support derivatives volume growth. The low-interest rate environment in the upcoming months is expected to drive more REIT and bond listings. SGX expanded the number of DLC offerings to 62, with 44 belonging to single stock and 22 from indices. SGX is also a leader in market share in the derivatives FX for CNH and INR futures exchange. In the meanwhile, the boost in derivatives business volume and product offerings will be more than sufficient in supporting earnings growth.

Investment Actions

We maintain Accumulate at a lower TP of S\$8.09 (previously S\$8.17) as we peg our TP to 21.4x P/E, 1 SD below SGX's 5-year mean. The lower TP is due to higher DDAV partly offset by lower SDAV. We assume S\$1.02bn of SDAV, 20% YoY growth in derivative revenues and 50% operating margins for FY20E. SGX's attractiveness as an investment in the medium term remains intact with superior ROE, dividend yield and attractive valuation. SGX is a defensive stock with consistent and diversified earnings, valuation and dividend support for resilience in an uncertain environment.

Chart 1: Peer comparison

Stock	Currency	Last Price	Market	Forward P/E			Forward P/B			EV/EBITDA			Dividend		ROE (%)		
		(Local Currency)	Cap (USDmn)	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 EXCHANGE LTD	SGD	7.38	5,799	21.2	21.0	19.9	8.1	7.2	6.8	14.6	14.5	13.6	4.2	4.4	37.2	34.7	35.8
BURSA MALAYSIA BHD	MYR	6.93	1,354	24.6	24.7	23.4	6.4	6.5	6.2	12.5	11.8	11.4	4.1	4.0	26.0	25.5	26.2
JAPAN EXCHANGE GROUP INC	JPY	1,807.00	8,677	21.5	20.0	19.2	3.5	NA	NA	10.6	11.0	10.6	3.0	3.1	19.3	16.9	NA
ASX LTD	AUD	74.65	10,154	28.0	29.5	28.7	3.7	3.7	3.6	16.3	16.0	15.2	3.6	3.1	11.8	12.4	12.8
			Market Cap Weighted Average:	24.1	24.2	23.3	4.8	3.4	3.3	13.8	13.8	13.1	3.6	3.4	20.7	19.6	14.4
Large-Cap Asian Exchange																	
HONG KONG EXCHANGES & CLEAR	HKD	272.00	43,624	30.2	32.3	28.7	8.4	8.0	7.7	20.4	18.0	16.0	2.8	3.2	23.9	25.2	27.5
US and European Exchanges																	
LONDON STOCK EXCHANGE GROUP	GBp	5,040.00	22,731	29.4	26.5	22.9	5.3	4.7	4.1	17.8	15.9	14.3	1.4	1.5	14.6	17.2	17.4
DEUTSCHE BOERSE AG	EUR	117.75	24,916	23.5	20.0	18.2	4.5	4.1	3.6	16.3	13.1	12.1	2.5	2.7	17.0	21.2	21.7
EURONEXT NV	EUR	60.25	4,697	16.2	17.1	15.9	5.3	4.5	3.9	12.3	11.1	10.6	2.9	3.1	28.4	27.9	26.6
CBOE GLOBAL MARKETS INC	USD	101.74	11,352	24.7	22.0	19.6	3.5	3.3	3.1	15.3	15.5	14.3	1.3	1.4	13.3	14.7	15.9
CME GROUP INC	USD	178.01	63,699	29.7	25.8	23.5	2.5	2.4	2.4	23.4	20.2	18.5	2.7	3.9	8.1	9.0	9.7
NASDAQ INC	USD	89.44	14,795	18.6	18.0	16.5	2.7	2.6	2.5	14.6	13.4	12.7	2.1	2.2	9.4	14.2	15.0
INTERCONTINENTAL EXCHANGE IN	USD	80.82	45,722	22.8	21.3	19.2	2.7	2.6	2.5	16.6	15.7	14.7	1.3	1.5	11.6	12.3	13.2
			Market Cap Weighted Average:	25.7	23.0	20.7	3.3	3.1	2.9	18.6	16.6	15.3	2.1	2.6	11.9	13.6	14.3

Source: Bloomberg, PSR

Extracted as of: 26-Apr-19

Figure 1: Securities Revenue (\$mn)

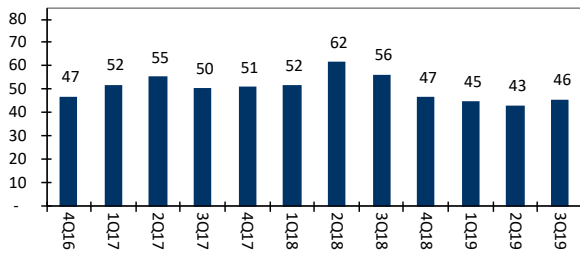


Figure 2: Derivatives Revenue (\$mn)

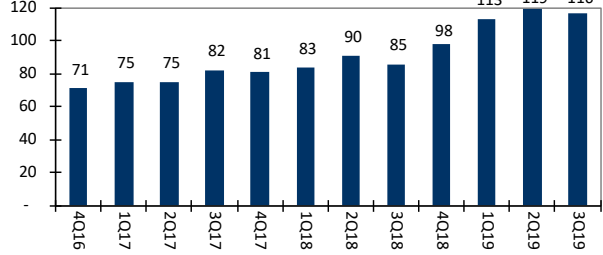


Figure 3: Post Trade services (\$mn)

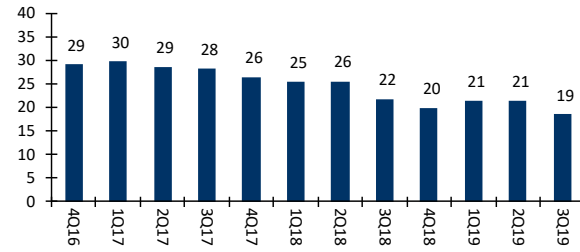


Figure 4: Member services and connectivity (\$mn)

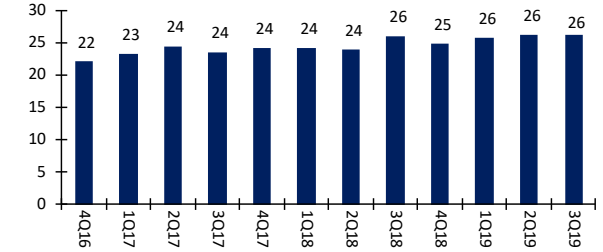


Figure 5: Issuer services (\$mn)

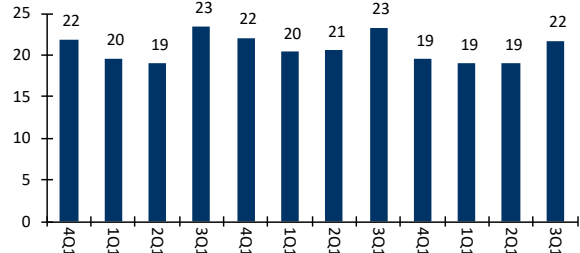


Figure 6: Total Revenue Composition (%)

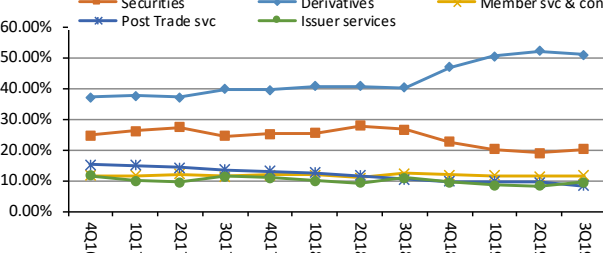


Figure 7: SDAV & DDAV

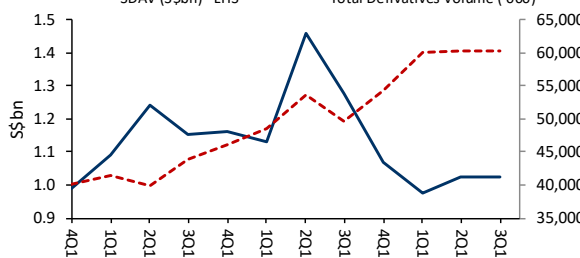


Figure 8: Sub Business Unit Main Drivers (\$mn)

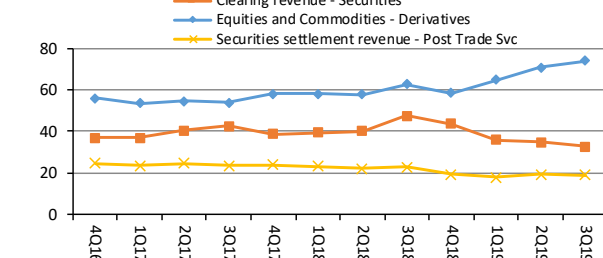


Figure 9: Total Operating Expenses (\$mn)

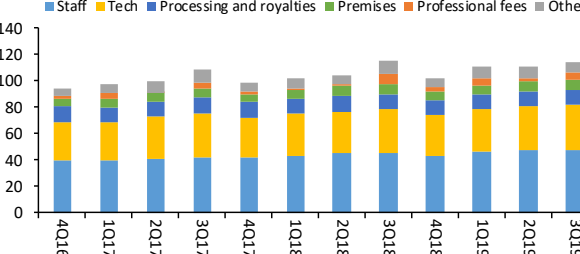


Figure 10: Operating Expenses as a % of Total Revenue

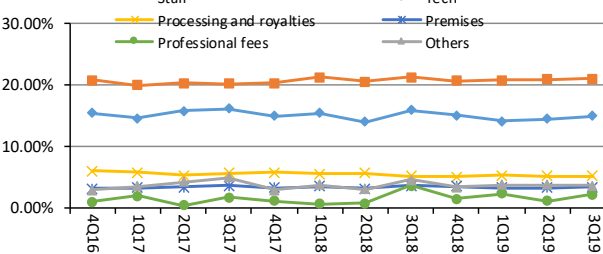


Figure 11: Operating Revenue and NPAT (\$M)

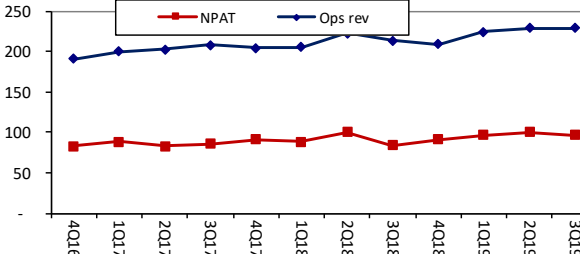
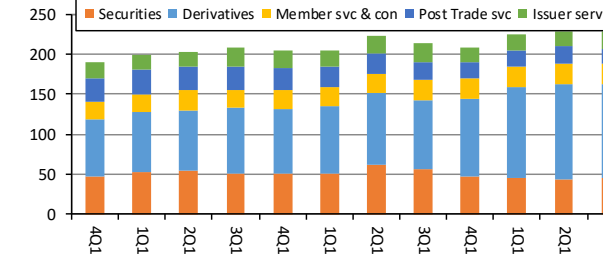


Figure 12: Total Revenue



Financials

Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Securities	205	205	221	181	178
Derivatives	325	303	340	446	537
Others	288	293	284	263	247
Operating revenue	818	801	845	890	962
Operating expenses	409	399	420	438	483
Operating profit	409	402	425	452	479
Other gains/(losses)	6	6	11	12	9
Associates & JVs	1	1	1	(1)	1
Profit Before Tax	416	409	437	463	488
Taxation	(67)	(69)	(74)	(80)	(84)
Net Income, reported	349	340	363	384	405
Net Income, adj.	349	340	363	384	405

Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	32.6	31.8	33.9	35.9	37.8
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%	87%

Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit before tax and Assoc.&JV	415	407	436	464	487
Depreciation & Amortisation	60	58	61	58	45
WC changes	17	(21)	(7)	(29)	17
Others	2	3	2	(2)	1
Cash generated from ops	494	447	492	491	550
Tax paid	(70)	(67)	(65)	(80)	(84)
Cashflow from ops	423	380	427	411	467
CFI					
CAPEX, net	(74)	(60)	(79)	(50)	(59)
Others	11	(87)	(11)	(29)	9
Cashflow from investments	(63)	(147)	(90)	(79)	(51)
CFE					
Loans, net of repayments	0	0	0	0	0
Dividends	(332)	(300)	(300)	(401)	(337)
Others	(13)	(9)	(8)	(9)	0
Cashflow from financing	(345)	(308)	(308)	(411)	(337)
Net change in cash	15	(76)	29	(78)	79
CCE, end	806	736	832	612	673

Source: Company, PSR

Balance Sheet

Y/E Jun, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	62	80	72	52	49
Software	155	159	174	181	196
Intangible assets	26	64	61	59	58
Goodwill	10	88	89	87	87
Others	55	37	39	147	147
Total non-current assets	307	429	435	526	537
Accounts receivables	930	815	827	765	773
Cash	806	736	772	612	673
Securities clearing funds	60	60	60	60	60
Others	3	1	22	24	24
Total current assets	1,799	1,613	1,680	1,461	1,531
Total Assets	2,105	2,041	2,115	1,987	2,067
LIABILITIES					
Accounts payables	1,013	892	891	793	804
Others	85	82	95	97	97
Total current liabilities	1,098	973	986	889	900
Others	18	35	33	31	31
Total non-current liabilities	18	35	33	31	31
Total Liabilities	1,116	1,009	1,019	920	931
EQUITY					
Non-controlling interests	0	0	0	0	0
Shareholder Equity	990	1,033	1,096	1,080	1,148

Valuation Ratios

Y/E Jun	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	22.7	23.3	21.8	20.6	19.5
P/B (X)	8.1	8.0	7.7	7.2	7.3
EV/EBITDA (X), adj.	9.0	9.2	8.7	8.3	7.9
Dividend Yield	3.8%	3.8%	4.1%	4.3%	4.5%

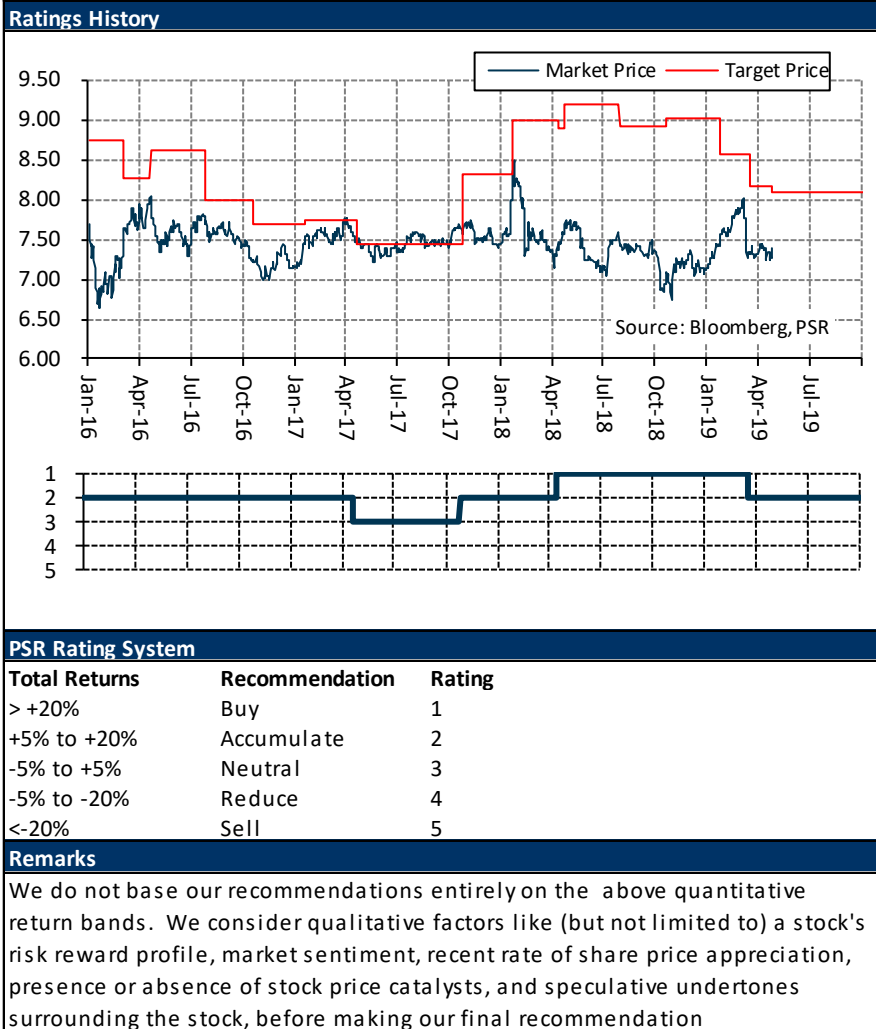
Growth & Margins

Growth					
Revenue	10.2%	-2.1%	5.5%	5.4%	8.0%
EBITDA	2.1%	-2.0%	5.7%	5.0%	2.6%
EBIT	10.2%	-2.1%	5.5%	6.5%	5.8%
Net profit, adj.	0.0%	-2.7%	6.9%	5.7%	5.4%
Margins					
EBITDA margin	57.3%	57.4%	57.5%	57.3%	54.4%
EBIT margin	50.0%	50.2%	50.3%	50.8%	49.8%
Net profit margin	42.7%	42.4%	43.0%	43.1%	42.1%

Key Ratios

ROE	35.5%	33.6%	34.1%	35.3%	36.3%
ROA	17.9%	16.4%	17.5%	18.7%	20.0%

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



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