

Singapore Exchange Limited

Deliberate Efforts to Grow



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SINGAPORE | FINANCE | 2Q20 RESULTS

- SGX achieved 2Q20 revenue and net profit in line with our expectations.
- Positive business outlook expected across multiple segments; FICC grew 20% YoY, while DCI business grew a modest 4% YoY to S\$26.7mn. The equities business came in flat.
- Acquired 'Smart Beta' index firm Scientific Beta for €186mn to propel DCI business.
- We maintain our NEUTRAL call with a revised TP of S\$8.52.** We peg our TP to 21.5x P/E, 1 SD below SGX's 5-year mean. We will be expecting SGX's acquisition plan to be EPS accretive in FY21. Our earnings forecast remains unchanged.

Figure 1: 2Q20 results compared to 2Q19 and 1Q20

Results at a glance					
(\$GD mn)	2Q20	2Q19	YoY	1Q20	QoQ
Fixed Income, Currencies & Commodities	39.0	32.5	20%	45.8	-15%
Equities - Cash & Derivatives	165.3	165.9	0%	176.1	-6%
Data, Connectivity & Indices	26.7	25.7	4%	25.7	4%
Total Revenue	230.9	224.2	3%	247.6	-7%
OPEX	89.4	95.3	-6%	91.1	-2%
EBITDA	141.5	128.8	10%	156.4	-10%
Dep & Amort	22.1	15.2	46%	21.7	1%
Operating profit	119.4	113.7	5%	134.7	-11%
Other gains/(losses)	1.9	3.6	-47%	4.6	-58%
Associates & JVs	(0.8)	(0.6)	<i>n.m.</i>	(0.5)	<i>n.m.</i>
Profit before tax	120.6	116.6	3%	138.8	-13%
Tax	(21.5)	(20.1)	7%	(24.6)	-13%
Net profit	99.0	96.5	3%	114.2	-13%

Source: Company, PSR

The Positives

+ Best 2Q results over the past 5 years. A positive set of earnings for 2Q overshadowed by stellar 1Q performance. Revenue of S\$231mn (+3% YoY) and profit of S\$99mn (+3% YoY). FICC grew 20% YoY to \$39mn in revenue while DCI business grew a modest 4% YoY to S\$26.7mn. The Equities business was flat YoY (cash equities rose 4.5% YoY whilst derivatives was down 5.3% YoY).

+ Sustained pipeline of listings across all asset classes. Fixed Income listing is positive due to the growing demand for capital in Asia for infrastructure and sustainability projects. The enhanced Global Asian Bond Grant scheme (formerly known as the Asian Bond Grant scheme) will provide funding support for issuers with an Asian nexus to issue *international* bonds through Singapore. The scheme is expected to channel the demand for capital-raising in Asia to Singapore, for the benefit of infrastructure and sustainability projects. Equities listing remains healthy as well, with capital raised from primary fundraising on track to exceed FY19's figures.

30 January 2020

Neutral (Maintained)

LAST DONE PRICE	SGD 8.74
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.52
TOTAL RETURN	1.1%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1071
MARKET CAP (USD mn / SGD mn) :	6884 / 9359
52 - WK HI/LO (SGD) :	9.23 / 7.22
3M Average Daily T/O (mn) :	2.99

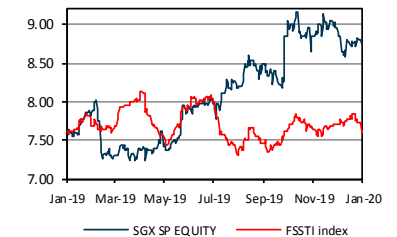
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.3%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.5)	(0.4)	19.4
STIRETURN	0.57	2.78	5.76

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY18	FY19	FY20e	FY21e
Revenue (SGD mn)	845	910	970	1031
EBITDA (SGD mn)	486	524	578	588
NPAT (SGD mn)	363	391	425	455
EPS (Cents)	33.9	36.5	39.7	42.5
PER, (X)	25.8	23.9	22.0	20.6
P/BV, (X)	9.1	8.5	8.6	7.7
DPS (Cents)	30.0	30.0	31.5	32.5
Div Yield	3.4%	3.4%	3.6%	3.7%
ROE	34.1%	35.8%	36.9%	35.8%

Source: Bloomberg, Company, PSR

Valuation Method

P/E Multiple @21.4x

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+ Acquisition of Scientific Beta to Propel Growth of DCI Business. The €186mn acquisition is an inorganic catalyst for SGX to double its DCI business over the next 5 years. Scientific Beta is an independent index provider that provides investable smart beta indices to its clients, allowing their clients to curate indices-tracking funds as passive investments. Factor investing has risen in popularity as investors shift towards passive investing strategies. Established by EDHEC-Risk Institute (ERI Asia), Scientific Beta has a strong research pedigree highly demanded on the market to create all-weather investment products. As at 30 September 2019, Scientific Beta reported assets replicating its indices of US\$54.7bn, a 10 times growth in under four years. Scientific Beta will allow SGX to expand into the factor investing and 'Smart Beta' market that is expected to snowball SGX's DCI business. The management commented that as of December 2019, Scientific Beta is a profitable company and had recorded revenue of more than €20mn. According to management, the acquisition is expected to be EPS accretive in FY2021.

Glossary

FICC - Fixed Income, Commodities and Currencies

DCI - Data, Connectivity and Index

The Negatives

- **On a YoY basis, equity derivatives volumes fell 18%** to 41mn contracts, resulting in a trading and clearing revenues to decline by 5%.

- **On a QoQ basis, revenue and profit fell 7% and 13% respectively.** However, QoQ results are not representative of SGX's business due to China's celebration of the Golden Week in October as well as the holiday season within the quarter.

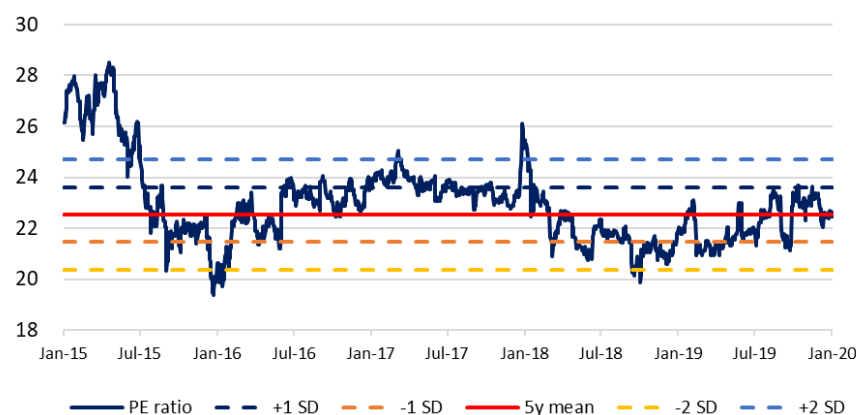
Outlook

We expect the trade truce between the US and China to dampen volatility, especially for SGX's key derivatives product - FTSE China A50 Index Futures.

Investment Actions

We maintain our NEUTRAL recommendation with a revised TP of S\$8.52. Our TP is pegged to 21.5x P/E, 1 SD below SGX's 5-year mean. SGX continues to make headway in attracting global flows for derivatives products. For 2H20, we are concerned that derivatives volume will be weaker as trade tensions ease and having a high watermark recorded in 2H19 to compare against. Another worry is the headline risk stemming from the launch of MSCI China Index futures by the Hong Kong Stock Exchange.

Figure 3: We benchmark our valuation -1SD of SGX's 5-year P/E



Source: Bloomberg, PSR

Financials

Income Statement

Y/E Jun, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Operating revenue	801	845	910	970	1,031
Operating expenses	341	359	386	392	443
EBITDA	460	486	524	578	588
Depreciation & amortisation	58	61	63	72	47
Operating profit	402	425	461	506	541
Other gains/(losses)	6	11	13	14	14
Associates & JVs	1	1	(2)	(2)	(2)
Profit before tax	409	437	473	517	553
Tax	(69)	(74)	(82)	(92)	(98)
Net profit after tax	340	363	391	425	455
Profit attributable to shareholders	340	363	391	425	455

Per share data (SGD Cents)

Y/E Jun	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	32	34	37	40	42
DPS	28	30	30	32	33
BVPS	92	96	102	102	113
Payout ratio	88%	88%	82%	79%	76%

Cash Flow

Y/E Jun, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before tax and Assoc.&JV	407	436	474	519	555
Depreciation & Amortisation	58	61	63	72	47
WC changes	(21)	(7)	(46)	(113)	(8)
Others	3	2	(2)	1	(2)
Cash generated from ops	447	492	490	480	591
Tax paid	(67)	(65)	(80)	(92)	(98)
Cashflow from ops	380	427	410	388	494
CFI					
CAPEX, net	(60)	(79)	(47)	(39)	(42)
Others	(87)	(11)	(41)	13	14
Cashflow from investments	(147)	(90)	(89)	(26)	(28)
CFE					
Loans, net of repayments	0	0	0	0	0
Dividends	(300)	(300)	(401)	(321)	(337)
Others	(9)	(8)	(10)	0	0
Cashflow from financing	(308)	(308)	(411)	(321)	(337)
Net change in cash	(76)	29	(90)	41	128
CCE, end	736	832	667	571	675

Source: Company, PSR

Balance Sheet

Y/E Jun, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE	80	72	61	39	32
Software	159	174	182	178	193
Intangible assets	64	61	58	57	56
Goodwill	88	89	85	87	87
Others	37	39	169	263	263
Total non-current assets	429	435	555	625	631
Accounts receivables	815	827	885	782	849
Cash	736	772	607	571	675
Securities clearing funds	60	60	60	60	60
Others	1	22	25	27	27
Total current assets	1,613	1,680	1,577	1,439	1,610
Total Assets	2,041	2,115	2,132	2,064	2,242

LIABILITIES

Accounts payables	892	891	912	691	751
Short term loans	0	0	0	0	0
Others	82	95	90	109	109
Total current liabilities	973	986	1,001	801	860
Lease liabilities	-	-	-	79	79
Long term loans	-	-	-	-	-
Others	35	33	40	39	39
Total non-current liabilities	35	33	40	119	119
Total Liabilities	1,009	1,019	1,041	919	979

EQUITY

Non-controlling interests	-	-	-	-	-
Shareholder Equity	1,033	1,096	1,091	1,213	1,333

Valuation Ratios

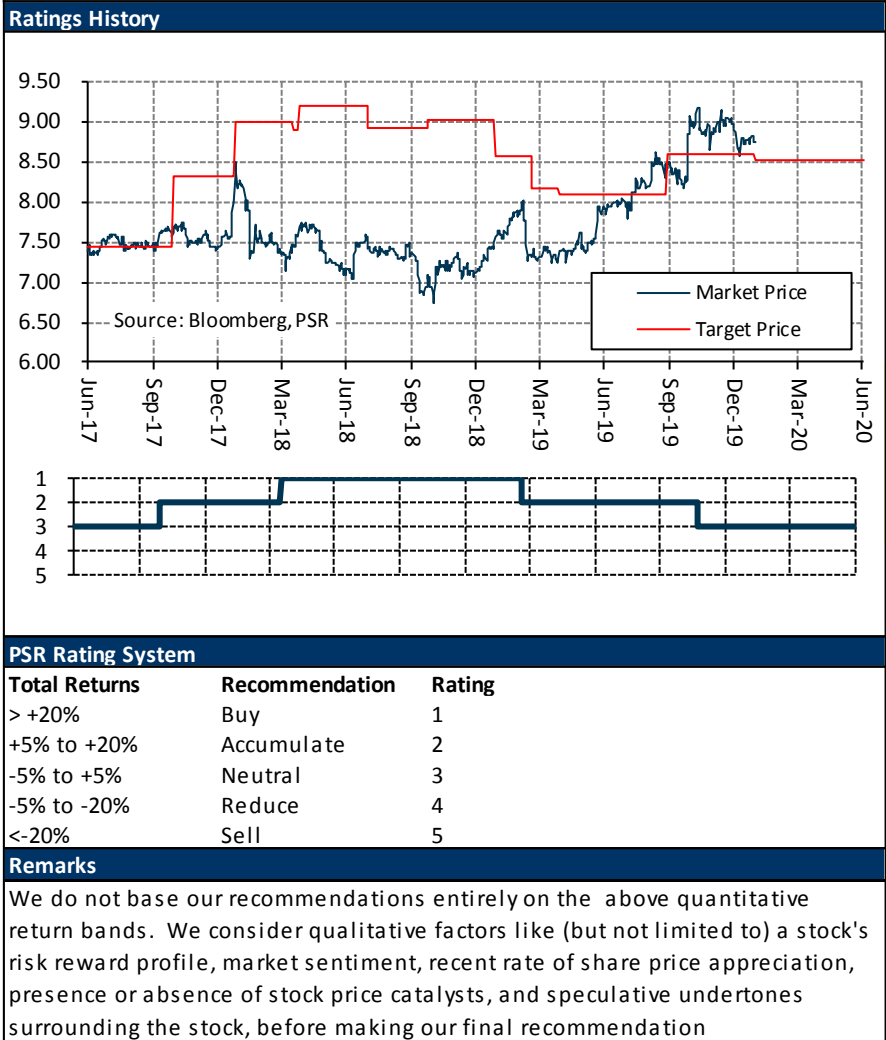
Y/E Jun	FY17	FY18	FY19	FY20e	FY21e
P/E (X), adj.	27.5	25.8	23.9	22.0	20.6
P/B (X)	9.5	9.1	8.5	8.6	7.7
EV/EBITDA (X), adj.	20.4	19.3	17.9	16.2	15.9
Dividend Yield	3.2%	3.4%	3.4%	3.6%	3.7%

Growth & Margins

Growth					
Revenue	-2.1%	5.5%	7.7%	6.6%	6.3%
EBITDA	-2.0%	5.7%	7.8%	10.4%	1.7%
EBIT	-1.8%	5.7%	8.5%	9.7%	7.0%
Net profit, adj.	-2.7%	6.9%	7.7%	8.8%	7.0%
Margins					
EBITDA margin	57.3%	57.4%	57.5%	57.5%	59.6%
EBIT margin	50.2%	50.3%	50.7%	52.1%	52.5%
Net profit margin	42.4%	43.0%	43.0%	43.9%	44.1%

Key Ratios

ROE	33.6%	34.1%	35.8%	36.9%	35.8%
ROA	16.4%	17.5%	18.4%	20.3%	21.1%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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