

Singapore Company Update

Singapore Exchange

Bloomberg: SGX SP | Reuters: SGXL.SI

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

14 Jan 2022

HOLD

Last Traded Price (13 Jan 2022): S\$9.65 (STI : 3,257.30)

Price Target 12-mth: S\$10.20 (6% upside)

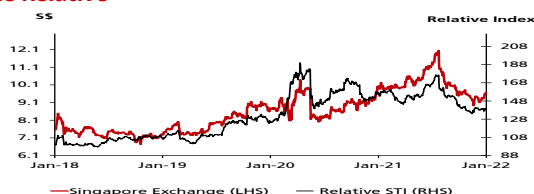
Analyst

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What's New

- 1H22 equities and derivatives volumes performance mixed, no immediate catalysts in near-term
- SGX's FTSE China A50 Index futures may see competition risk from HKEX's newly launched MSCI China A50 Connect Index futures
- Keep watch on next phase of growth, including the execution of newly acquired Scientific Beta and BidFX
- Maintain HOLD, TP S\$10.20; dividend yield ~3.3%

Price Relative



Forecasts and Valuation

FY Jun (\$m)	2020A	2021A	2022F	2023F
Revenue	1,053	1,056	1,103	1,157
EBITDA	573	536	522	590
Pre-tax Profit	571	536	519	586
Net Profit	472	446	432	487
Net Pft (Pre Ex.)	472	446	432	487
Net Pft Gth (Pre-ex) (%)	20.7	(5.6)	(3.2)	12.9
EPS (S cts)	43.9	41.1	39.8	44.9
EPS Pre Ex. (S cts)	43.9	41.1	39.8	44.9
EPS Gth Pre Ex (%)	20	(6)	(3)	13
Diluted EPS (S cts)	44.0	41.5	40.2	45.4
Net DPS (S cts)	30.5	32.0	32.0	32.0
BV Per Share (S cts)	116	128	135	148
PE (X)	22.0	23.5	24.3	21.5
PE Pre Ex. (X)	22.0	23.5	24.3	21.5
P/Cash Flow (X)	16.6	18.9	30.2	20.4
EV/EBITDA (X)	17.0	18.4	19.1	16.7
Net Div Yield (%)	3.2	3.3	3.3	3.3
P/Book Value (X)	8.3	7.6	7.1	6.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	40.4	33.9	30.2	31.6
Earnings Rev (%)			(6)	3
Consensus EPS (S cts):			41.8	44.9
Other Broker Recs:		B: 4	S: 5	H: 7

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

No immediate catalysts

Investment Thesis:

Maintain HOLD; no immediate catalysts. While SGX saw good contributions from all business segments in last two years, including from equities and fixed income, currencies and commodities (FICC) on the back of heightened market volatility, we maintain our HOLD call, as we believe there are no immediate catalysts for the stock, with 1HFY22 equities and derivatives volumes performance mixed.

Competition risks. SGX's FTSE China A50 Index futures, which used to be the only offshore China A50 futures, accounting for c.40% of SGX's total derivatives volumes, now sees competition from HKEX's MSCI China A50 Connect index futures, which is gaining market share. Should HKEX continue to gain market share, there is potential earnings risk for SGX as well.

Keep watch on next phase of growth. We continue to monitor the execution of newly acquired Scientific Beta and BidFX as SGX sets its sight on doubling revenues from Data, Connectivity, Indices (DCI) and FICC in the next four years. Potential catalysts: Higher-than-expected growth in securities daily average value (SDAV), and FICC and DCI are re-rating catalysts.

Valuation:

Maintain HOLD, TP \$10.20. We maintain HOLD, TP \$10.20, representing c.24x one-year forward PE which is +1S.D. above its five-year historical mean. Our TP is based on the dividend discount model (k=7%, g=3%, ROE=37%). We revised our FY22-23F earnings to incorporate company's guidances.

Where we differ:

We remain more conservative on our earnings estimates, bearing in mind that FY20-1H21A saw good traction in equities and derivatives due to heightened market volatility.

Key Risks to Our View:

Competition in derivatives business. Any competition from HKEX in the derivatives space may affect SGX's derivatives earnings directly.

At A Glance

Issued Capital (m shrs)	1,069
Mkt. Cap (S\$m/US\$m)	10,313 / 7,663
Major Shareholders (%)	
Free Float (%)	100
3m Avg. Daily Val (US\$m)	16.9
GIC Industry : Financial / Diversified Financials	



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WHAT'S NEW

1HFY22 equities and derivatives performance mixed

- According to the latest published market statistics, Securities Daily Average Value (SDAV) in Dec 2021 and 1HFY22 pulled back from prior year's high base alongside lower overall turnover velocity (1HFY22: 39%, Dec 2021: 29%; 1HFY21: 49%, Dec 2020: 40%), while 1HFY22 derivatives volumes were broadly stable y-o-y
- Dec 2021 SDAV S\$852m (-23% y-o-y, --36% m-o-m)
- 1HFY22 SDAV: S\$1,166m (-8% y-o-y)
- Dec 2021 derivatives average volumes: 0.850m (+4% y-o-y, -1% m-o-m); open interest +3% y-o-y/ -12% m-o-m to 4.47m
- 1HFY22 derivatives average volumes: 0.927m (-1% y-o-y)
- Total and key contract volumes:

Volume	1HFY22	1HFY21	y-o-y
Total Equity Index Derivatives	86,016,813	89,148,411	-4%
FTSE China A50 Index Futures	50,587,537	48,858,262	4%
MSCI Singapore Index Futures	6,813,023	5,834,854	17%
FTSE Taiwan Index Futures	8,192,612	6,068,356	35%
Nikkei 225 Index Futures	7,065,741	9,223,366	-23%
Nifty 50 Index Futures	12,628,645	12,382,906	2%
Total FX Derivatives	12,574,150	11,809,609	6%
INR_USD	6,918,808	6,693,795	3%
USD_CNH	5,152,602	4,719,122	9%
Total Metal and Dry Bulk	12,695,937	10,709,011	19%
Total Derivatives Trading Volume	116,733,667	117,345,994	-1%

Source: Company, DBS Bank

Company Background

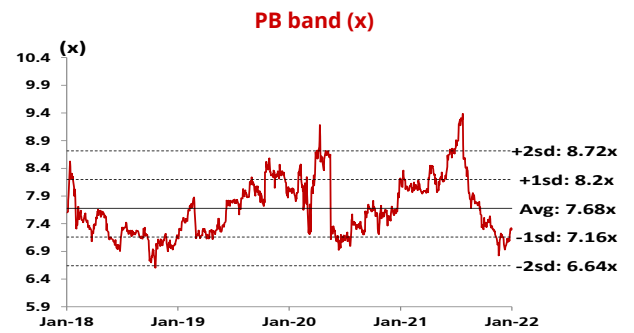
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Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Key Assumptions

FY Jun	2019A	2020A	2021A	2022F	2023F
Average Daily Value	1,042	1,318	1,350	1,377	1,398

Segmental Breakdown

FY Jun	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Securities Market	139	171	212	228	245
Derivatives Market	668	760	701	714	731
Other revenue	103	122	143	160	181
Total	910	1,053	1,056	1,103	1,157

Income Statement (\$m)

FY Jun	2019A	2020A	2021A	2022F	2023F
Revenue	910	1,053	1,056	1,103	1,157
Cost of Goods Sold	(449)	(487)	(525)	(586)	(573)
Gross Profit	461	566	531	516	584
Other Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Operating Profit	461	566	531	516	584
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.5)	(2.3)	(4.3)	(4.3)	(4.3)
Net Interest (Exp)/Inc	13.5	7.46	10.1	7.59	6.59
Exceptional Gain/(Loss)	(0.1)	0.0	0.0	0.0	0.0
Pre-tax Profit	473	571	536	519	586
Tax	(81.9)	(99.0)	(90.7)	(87.8)	(99.1)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	391	472	446	432	487
Net Profit before Except.	391	472	446	432	487
EBITDA	511	573	536	522	590
Growth					
Revenue Gth (%)	7.7	15.7	0.3	4.4	5.0
EBITDA Gth (%)	7.2	12.2	(6.5)	(2.6)	13.0
Opg Profit Gth (%)	8.5	22.7	(6.2)	(2.7)	13.1
Net Profit Gth (Pre-ex) (%)	7.8	20.7	(5.6)	(3.2)	12.9
Margins & Ratio					
Gross Margins (%)	50.7	53.7	50.3	46.8	50.5
Opg Profit Margin (%)	50.7	53.7	50.3	46.8	50.5
Net Profit Margin (%)	43.0	44.8	42.2	39.1	42.1
ROAE (%)	35.8	40.4	33.9	30.2	31.6
ROA (%)	18.4	19.6	15.6	13.6	14.2
ROCE (%)	33.7	32.7	23.6	20.8	22.4
Div Payout Ratio (%)	102.9	69.5	77.9	80.5	71.3
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

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Interim Income Statement (\$m)

FY Jun	1H2021	2H2021
Revenue	521	535
Cost of Goods Sold	(248)	(277)
Gross Profit	273	258
Other Oper. (Exp)/Inc	0.0	0.0
Operating Profit	273	258
Other Non Opp (Exp)/Inc	15.6	(5.6)
Associates & IV Inc	(0.6)	(3.7)
Net Interest (Exp)/Inc	0.0	0.0
Exceptional Gain/(Loss)	0.0	0.0
Pre-tax Profit	288	249
Tax	(47.7)	(43.0)
Minority Interest	0.0	0.0
Net Profit	240	206
Net profit bef Except.	240	206
EBITDA	288	249

Growth

Revenue Gth (%)	nm	2.8
EBITDA Gth (%)	nm	(13.5)
Opp Profit Gth (%)	nm	(5.3)
Net Profit Gth (%)	nm	(14.2)

Margins

Gross Margins (%)	52.3	48.2
Opp Profit Margins (%)	52.3	48.2
Net Profit Margins (%)	46.1	38.5

Balance Sheet (\$m)

FY Jun	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	61.0	50.8	50.4	100	150
Invts in Associates & JVs	79.1	71.9	41.0	36.7	32.4
Other LT Assets	415	841	1,081	1,081	1,081
Cash & ST Invts	667	907	1,060	999	1,107
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	885	758	749	1,073	1,126
Other Current Assets	25.0	50.6	41.3	41.3	41.3
Total Assets	2,132	2,679	3,023	3,332	3,538
ST Debt	0.0	304	0.0	0.0	0.0
Creditor	912	809	868	1,105	1,160
Other Current Liab	90.0	145	138	127	138
LT Debt	0.0	0.0	468	468	468
Other LT Liabilities	40.0	172	159	159	159
Shareholder's Equity	1,091	1,245	1,385	1,469	1,609
Minority Interests	0.0	4.44	4.86	4.86	4.86
Total Cap. & Liab.	2,132	2,679	3,023	3,332	3,538
Non-Cash Wkg. Capital	(91.0)	(145)	(216)	(117)	(130)
Net Cash/(Debt)	667	603	592	532	639
Debtors Turn (avg days)	343.5	285.0	260.5	301.6	346.8
Creditors Turn (avg days)	827.4	658.1	593.4	624.5	733.7
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.4	0.4	0.4	0.3	0.3
Current Ratio (x)	1.6	1.4	1.8	1.7	1.8
Quick Ratio (x)	1.5	1.3	1.8	1.7	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	11.4	9.7	12.8	12.8
Z-Score (X)	7.5	5.8	5.1	5.1	5.1

Source: Company, DBS Bank

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Cash Flow Statement (\$m)

FY Jun	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	473	571	536	519	586
Dep. & Amort.	51.3	9.88	9.66	10.0	10.2
Tax Paid	(82.4)	(77.2)	(110)	(99.6)	(87.8)
Assoc. & JV Inc/(loss)	1.50	2.30	4.29	4.29	4.29
Chg in Wkg.Cap.	(40.9)	21.4	81.2	(87.5)	1.57
Other Operating CF	15.1	96.8	30.8	0.0	0.0
Net Operating CF	417	624	553	347	515
Capital Exp.(net)	(47.4)	(34.6)	(45.3)	(60.0)	(60.0)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(71.7)	(272)	(173)	0.0	0.0
Div from Assoc & JV	0.0	0.0	3.43	0.0	0.0
Other Investing CF	(41.2)	(7.6)	17.1	0.0	0.0
Net Investing CF	(160)	(314)	(198)	(60.0)	(60.0)
Div Paid	(401)	(321)	(342)	(347)	(347)
Chg in Gross Debt	0.0	288	(213)	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(20.7)	(36.7)	353	0.0	0.0
Net Financing CF	(422)	(69.4)	(202)	(347)	(347)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(165)	241	153	(60.6)	107
Opg CFPS (S cts)	42.7	56.1	43.5	40.0	47.3
Free CFPS (S cts)	34.5	54.8	46.8	26.4	41.9

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Jan 21	10.05	10.20	HOLD

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rui Wen LIM

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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