

COMPANY RESULTS

Singapore Exchange (SGX SP)

1HFY22: Mixed Results As Derivatives Outperform, Dragged Again By Treasury Income

SGX reported lower 1HFY22 net profit, down 8.7% yoy as lower treasury income and trading velocity affected overall revenue. Excluding treasury income, the currencies, commodities and equity derivatives segments posted robust double-digit revenue growth as demand surged. Although SGX's underlying businesses are stable and growing, we do not see any near-term catalysts to justify a re-rating. Maintain HOLD with a lower target price of S\$9.09 (S\$9.74).

1HFY22 RESULTS

| Year to 30 Jun (S\$m) | 1HFY22 | 1HFY21 | yoy% Chg | 2HFY21 | hoh% Chg |
|---------------------------------------|--------|--------|----------|--------|----------|
| Turnover | 521.6 | 520.8 | 0.2 | 535.1 | (2.5) |
| Fixed Income, Currencies, Commodities | 114.0 | 99.2 | 14.9 | 112.5 | 1.3 |
| Cash Equities | 190.7 | 201.1 | (5.2) | 211.6 | (9.9) |
| Equities Derivatives | 143.8 | 149.7 | (4.0) | 138.7 | 3.7 |
| Data, Connectivity and Indices | 73.1 | 70.7 | 3.4 | 72.4 | 1.1 |
| Operating Profit | 259.5 | 272.6 | (4.8) | 258.2 | 0.5 |
| Net Profit | 219.0 | 240.0 | (8.7) | 213.5 | 2.6 |
| Margin (%) | | | ppt Chg | | |
| Operating margin | 49.8 | 52.3 | (2.6ppt) | 48.2 | 1.5ppt |
| Net Profit | 42.0 | 46.1 | (4.1ppt) | 39.9 | 2.1ppt |
| Operating Expense | 50.2 | 47.7 | (2.6ppt) | 51.8 | 1.5ppt |
| Segment EBITDA Margins | | | ppt Chg | | |
| Fixed Income, Currencies, Commodities | 37.2 | 35.5 | 1.7ppt | 33.6 | 3.6ppt |
| Equities | 64.4 | 68.1 | (3.7ppt) | 63.6 | 0.9ppt |
| Data, Connectivity and Indices | 65.8 | 66.8 | (1.1ppt) | 59.8 | 6.0ppt |

Source: SGX, UOB Kay Hian

RESULTS

- Muted 1HFY22 earnings within our expectations.** For 1HFY22, Singapore Exchange (SGX) reported revenue and net profit of S\$521.6m (+0.2% yoy) and S\$219.0m (-8.7% yoy) respectively, forming 47/50% of our FY22 estimates. Excluding treasury income and positive one-off adjustments from SGX's 1HFY21 acquisition of BidFX, SGX's 1HFY22 underlying core business revenue would have grown 6.0% yoy while net profit would have only softened 3% yoy. Operating profit dropped 4.8% yoy on 5.6% higher yoy operating expenses as overall headcount increased. SGX declared 1HFY22 dividend of 16 S cents, same as 1HFY21. SGX management has no plans to introduce a scrip dividend scheme in FY22 and would reassess the scheme at a later date.
- Mixed segmental performance.** SGX's core revenue growth driver, fixed income, currencies, commodities (FICC) segment, posted a strong 14.9% yoy revenue growth as commodities and currency derivative volumes grew 11.8% yoy. Cash equities segmental revenue dropped 5.2% yoy as securities daily average traded value (SDAV) fell 8% yoy. The underperformance is expected coming off elevated trading volumes in FY21 and is expected to continue declining moving forward. Equity derivatives segmental revenue softened 4.0% yoy as 1HFY22 equity derivative volumes fell 4.0% yoy. Excluding treasury income, equity derivatives trading and clearing revenue surged 18.7% yoy as 1HFY22 China A50 Index Futures volumes grew 3.5% yoy and average fee per contract increased to S\$1.50 (S\$1.27). Data, Connectivity and Indices (DCI) revenue rose 3.4% yoy, on the back of growing secular trend into ESG/thematic investing.

KEY FINANCIALS

| Year to 30 Jun (RMm) | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover | 1,052.7 | 1,055.9 | 1,056.4 | 1,125.1 | 1,185.4 |
| EBITDA | 655.7 | 625.3 | 600.6 | 644.9 | 684.4 |
| Operating profit | 565.8 | 530.7 | 504.9 | 553.0 | 598.0 |
| Net profit (rep./act.) | 471.8 | 445.4 | 412.3 | 452.2 | 489.5 |
| Net profit (adj.) | 471.8 | 446.9 | 412.3 | 452.2 | 489.5 |
| EPS (S\$ cent) | 43.9 | 41.2 | 38.0 | 41.7 | 45.1 |
| PE (x) | 22.5 | 23.9 | 26.0 | 23.7 | 21.9 |
| P/B (x) | 8.5 | 7.6 | 7.2 | 6.8 | 6.2 |
| EV/EBITDA (x) | 15.1 | 15.8 | 16.5 | 15.4 | 14.5 |
| Dividend yield (%) | 3.1 | 3.2 | 3.2 | 3.3 | 3.4 |
| Net margin (%) | 44.8 | 42.2 | 39.0 | 40.2 | 41.3 |
| Net debt/(cash) to equity (%) | (30.7) | (26.4) | (43.8) | (54.9) | (63.4) |
| ROE (%) | 40.4 | 33.9 | 29.0 | 30.0 | 30.1 |
| Consensus net profit | - | - | 438 | 480 | 512 |
| UOBKH/Consensus (x) | - | - | 0.94 | 0.94 | 0.96 |

Source: SGX, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

| | |
|---------------|---------|
| Share Price | S\$9.86 |
| Target Price | S\$9.09 |
| Upside | -7.8% |
| (Previous TP) | S\$9.74 |

COMPANY DESCRIPTION

Singapore Exchange Limited owns and operates Singapore's securities and derivatives exchange and their related clearing houses. The company also provides ancillary securities processing and information technology services to participants in the financial sector.

STOCK DATA

| | |
|---------------------------------|------------|
| GICS sector | Financials |
| Bloomberg ticker: | SGX SP |
| Shares issued (m): | 1,068.7 |
| Market cap (S\$m): | 10,537.9 |
| Market cap (US\$m): | 7,836.6 |
| 3-mth avg daily t'over (US\$m): | 18.6 |

Price Performance (%)

52-week high/low S\$12.05/S\$8.93

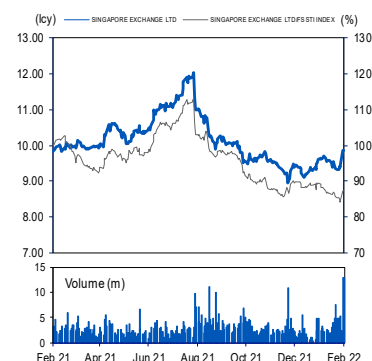
| 1mth | 3mth | 6mth | 1yr | YTD |
|------|------|--------|-----|-----|
| 2.5 | 3.2 | (10.4) | 0.4 | 6.0 |

| Major Shareholders | % |
|--------------------|---|
| - | - |
| - | - |
| - | - |

FY22 NAV/Share (S\$) 1.36

FY22 Net Debt/Share (S\$) 0.60

PRICE CHART



Source: Bloomberg

ANALYST(S)

Llleythan Tan
 +65 6590 6624
 yirong@uobkayhian.com

- Equity derivatives: Robust performance, dragged again by treasury income.** 1HFY22 revenue formed 46.0% of our FY22 forecasts, slightly missing our expectations. Underperformance was mainly contributed by a sharp fall in treasury income than previously expected. Treasury income fell sharply by 68.0% yoy to S\$12.5m, forming only 20.3% of our FY22 forecasts. However, the rate of decline for treasury income is expected to slow down and upcoming interest rate hikes in 2022 would boost treasury income starting 2HFY23. 1HFY22 equity derivatives trading and clearing (T&C) revenue of S\$131.3m (+18.7% yoy) outperformed, forming 52.3% of our FY22 forecasts. This was largely due to the removal of introductory discounts implemented in 1HFY21 and higher open interest across all equity derivative products, resulting in an average higher fee per contract of S\$1.50 (S\$1.27).
- Management is positive on SGX's FTSE China A50 Index Futures growth and noted that the overall market and interest is growing steadily due to healthy competition from HKEX's MSCI China A50 Index futures.** 1HFY22 volumes for SGX's China's A50 futures grew 3.5% yoy to 50.5m contracts despite competition from HKEX starting in Oct 21. We reckon that SGX's commanding market share, strong liquidity on its exchange and multi-asset offerings have helped SGX retain its clients and market share. Although these are early days, we are mindful of the impact from HKEX's A50 offering but reckon it would be a multi-year affair before we see significant impact on earnings.
- Cash equities: Free rolling downhill.** Revenue from cash equities missed expectations, forming 48.1% of our full-year forecasts at S\$190.7m (-5.2% yoy), dragged down by lower T&C revenue at S\$100.8m (-9.6% yoy) which formed 47.4% of our FY22 forecasts. As SDAV normalises from elevated levels in FY21, we expect the cash equities segment to continue its downtrend going into 2HFY22. Total traded value fell 7.0% yoy in 1HFY22 to S\$144.7b. We expect 2HFY22 total value to decline further to pre-pandemic levels at S\$135-140b. Also, 1HFY22 average clearing fees for cash equities fell 4.0% yoy to 2.66bpts (2.77bpts) with overall turnover velocity falling to 39% from 49% a year ago. Looking forward, upcoming interest rate hikes as well as global economic uncertainty may suppress SDAV while newly listed SPAC listings/ETFs may stem the ongoing decline in FY22.
- FICC: Exciting growth ahead.** In line with expectations, FICC revenue (+14.9% yoy) formed 45.9% of our FY22 forecasts due to strong 1HFY22 volumes from both currencies (+6.8% yoy) and commodity derivatives (+17.5% yoy), along with higher T&C revenue from BidFX. We expect 2HFY22 revenue to grow further by 18-20% yoy, driven by the completion of the MaxxTrader acquisition and SGX's OTC FX electronic communication network which went live in Nov 21. Total FX average daily volume (ADV) has increased 46% yoy to US\$57b and management is optimistic that ADV may reach US\$70-80b by end-2022.
- DCI: Reliable and stable.** In line with expectations, revenue grew 3.4% yoy due to higher revenue contribution from Scientific Beta and an increase in data subscription

STOCK IMPACT

- Higher treasury income from interest rate hikes.** With soaring inflation, the Fed is expected to raise interest rates by 3-4 times in 2022, with the first hike expected in Mar 22. As rates rise, we expect treasury income to follow suit and see a significant boost some time in 2HFY23, given that there is usually a 6-9 months lag.

EARNINGS REVISION/RISK

- Lower our FY22-24 earnings forecast by 6%, 4% and 0.3% respectively,** due to lower treasury income forecasts than previously expected. We have also increased our FY22-24 China A50 assumptions to 96m (91m), 95m (86m) and 93m (77m) respectively as we become more upbeat on SGX's leadership position for the China A50 index futures market.

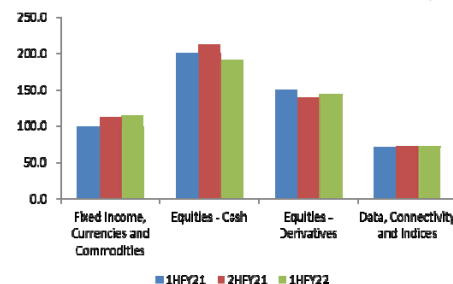
VALUATION/RECOMMENDATION

- Maintain HOLD with a slightly lower target price of S\$9.09 (S\$9.74),** pegging our PE multiple to 23.6x (23.8x) FY22F earnings, +1SD of SGX's historical forward PE. Trading just below +1SD of its historical mean, we reckon that SGX is fully valued at current price levels and do not see major potential upside. We remain cautious that competition from HKEX and sliding SDAV would impact earnings. We think significant revenue from new initiatives such as SGX's FX ETC network and SPACS would take time to gestate and major success from these initiatives could re-rate SGX to trade around to peers' average (29.6x).

SHARE PRICE CATALYST

- Secondary listings of foreign listed entities, longer-than-expected period of trading volatility.**

SGX'S SEMI-ANNUAL SEGMENTAL REVENUE (\$m)



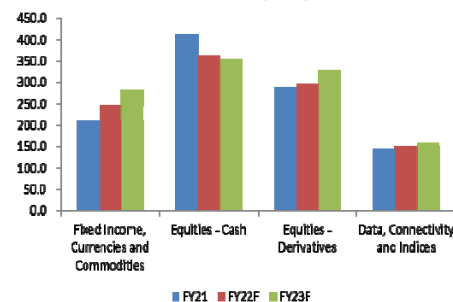
Source: SGX, UOB Kay Hian

HKEX'S MSCI CHINA A50 INDEX FUTURES DAILY TRADED VOLUME SINCE LAUNCH



Source: Hong Kong Exchange, UOB Kay Hian 'As of 6th Feb 22

FY22-24F ANNUAL SEGMENTAL REVENUE FORECASTS BREAKDOWN (\$m)



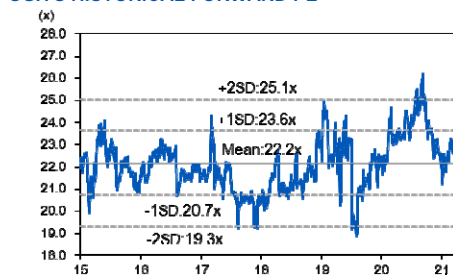
Source: SGX, UOB Kay Hian

SGX'S SEMI-ANNUAL TREASURY INCOME (\$m)



Source: SGX

SGX'S HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

| Year to 30 Jun (\$m) | 2021 | 2022F | 2023F | 2024F |
|----------------------------------|----------------|----------------|----------------|----------------|
| Net turnover | 1,055.9 | 1,056.4 | 1,125.1 | 1,185.4 |
| EBITDA | 625.3 | 600.6 | 644.9 | 684.4 |
| Deprec. & amort. | 94.5 | 95.7 | 91.9 | 86.4 |
| EBIT | 530.7 | 504.9 | 553.0 | 598.0 |
| Total other non-operating income | 10.0 | 0.0 | 0.0 | 0.0 |
| Associate contributions | (4.3) | (8.0) | (8.0) | (8.0) |
| Pre-tax profit | 536.5 | 496.9 | 545.0 | 590.0 |
| Tax | (90.7) | (84.5) | (92.7) | (100.3) |
| Minorities | (0.4) | (0.2) | (0.2) | (0.2) |
| Net profit | 445.4 | 412.3 | 452.2 | 489.5 |
| Net profit (adj.) | 446.9 | 412.3 | 452.2 | 489.5 |

CASH FLOW

| Year to 30 Jun (\$m) | 2021 | 2022F | 2023F | 2024F |
|---|----------------|----------------|----------------|----------------|
| Operating | 553.0 | 644.4 | 596.8 | 601.4 |
| Pre-tax profit | 540.8 | 504.9 | 553.0 | 598.0 |
| Tax | (109.4) | (84.5) | (92.7) | (100.3) |
| Deprec. & amort. | 94.5 | 95.7 | 91.9 | 86.4 |
| Working capital changes | 27.1 | 100.6 | 16.8 | (10.5) |
| Non-cash items | (0.0) | 27.7 | 27.8 | 27.8 |
| Investing | (198.0) | (30.0) | (30.0) | (30.0) |
| Capex (growth) | (173.2) | 0.0 | 0.0 | 0.0 |
| Capex (maintenance) | (45.3) | (30.0) | (30.0) | (30.0) |
| Investments | (43.0) | 0.0 | 0.0 | 0.0 |
| Proceeds from sale of assets | 52.3 | 0.0 | 0.0 | 0.0 |
| Others | 11.2 | 0.0 | 0.0 | 0.0 |
| Financing | (209.9) | (342.2) | (348.2) | (353.4) |
| Dividend payments | (342.4) | (342.2) | (348.2) | (353.4) |
| Proceeds from borrowings | 495.2 | 0.0 | 0.0 | 0.0 |
| Loan repayment | (731.0) | 0.0 | 0.0 | 0.0 |
| Others/interest paid | 368.3 | 0.0 | 0.0 | 0.0 |
| Net cash inflow (outflow) | 145.1 | 272.3 | 218.6 | 218.0 |
| Beginning cash & cash equivalent | 686.4 | 833.4 | 1,105.7 | 1,324.2 |
| Changes due to forex impact | 1.9 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 833.4 | 1,105.7 | 1,324.2 | 1,542.2 |

BALANCE SHEET

| Year to 30 Jun (\$m) | 2021 | 2022F | 2023F | 2024F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 216.2 | 150.5 | 88.6 | 32.2 |
| Other LT assets | 956.3 | 948.1 | 940.1 | 932.1 |
| Cash/ST investment | 833.4 | 1,105.7 | 1,324.2 | 1,542.2 |
| Other current assets | 1,016.7 | 1,186.5 | 1,205.5 | 1,255.7 |
| Total assets | 3,022.6 | 3,390.8 | 3,558.4 | 3,762.3 |
| ST debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current liabilities | 1,006.1 | 1,276.6 | 1,312.3 | 1,352.1 |
| LT debt | 467.8 | 467.8 | 467.8 | 467.8 |
| Other LT liabilities | 158.9 | 186.6 | 214.3 | 242.1 |
| Shareholders' equity | 1,384.9 | 1,455.2 | 1,559.3 | 1,695.6 |
| Minority interest | 4.9 | 4.7 | 4.7 | 4.7 |
| Total liabilities & equity | 3,022.6 | 3,390.7 | 3,558.4 | 3,762.3 |

KEY METRICS

| Year to 30 Jun (%) | 2021 | 2022F | 2023F | 2024F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 59.2 | 56.9 | 57.3 | 57.7 |
| Pre-tax margin | 50.8 | 47.0 | 48.4 | 49.8 |
| Net margin | 42.2 | 39.0 | 40.2 | 41.3 |
| ROA | 15.6 | 12.9 | 13.0 | 13.4 |
| ROE | 33.9 | 29.0 | 30.0 | 30.1 |
| Growth | | | | |
| Turnover | 0.3 | 0.0 | 6.5 | 5.4 |
| EBITDA | (4.6) | (3.9) | 7.4 | 6.1 |
| Pre-tax profit | (6.0) | (7.4) | 9.7 | 8.3 |
| Net profit | (5.6) | (7.4) | 9.7 | 8.3 |
| Net profit (adj.) | (5.3) | (7.8) | 9.7 | 8.3 |
| EPS | (6.2) | (7.8) | 9.7 | 8.3 |
| Leverage | | | | |
| Debt to total capital | 25.2 | 24.3 | 23.0 | 21.6 |
| Debt to equity | 33.8 | 32.1 | 30.0 | 27.6 |
| Net debt/(cash) to equity | (26.4) | (43.8) | (54.9) | (63.4) |

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