

Singapore Exchange Ltd (SGX SP)

NDR Highlights: More Opportunities Ahead

Positive on growth strategies

During our recent NDR with SGX in Malaysia, investors were interested in: 1) growth strategies and opportunities; and 2) the latest developments on the BM-SGX trading link and SGX India equity derivatives. We believe SGX is a good proxy for the market cycle, with healthy FY18-19E ROEs of ~35% and yields of ~4%. Maintain BUY and TP SGD8.73, based on an unchanged P/E of 23x FY19 EPS, in line with its mean since 2012.

Grow FX and fixed income; open to inorganic growth

SGX will diversify revenues by focusing on FX and fixed income for further growth. Currently, it has 21 currency futures and options contracts (in contrast to 6 currency futures in Jan'14) with significant volume market share in USD/CNH (>70%) and INR/USD (>40%) in 2Q18. It looks to offer more FX contracts. On fixed income, SGX is well-positioned to ride the Asian growth story as more Asian issuers come on board. New bond listings rose 85% YoY to 636 as at 1H18 (1H17: 343). For SGX Bond Pro, it expects USD1b matched volumes by 2018. SGX is also open to inorganic opportunities, such as trading platforms that can complement its FX/fixed income business. It has the ability to leverage given its healthy balance sheet with zero debt.

Focus on attracting technology companies

Technology is one of the sectors that SGX will focus on for its listing strategy. It looks to target start-ups over the next few years and is positive that the collaboration with Nasdaq can facilitate cross-listing of technology companies on both exchanges. On dual class shares, it intends to target listings of companies that are between SGD1-5b.

Recent developments

The details of the BM-SGX trading link are still being worked out with the timeline set to be end-2018. We view this as a positive development and expect synergies to come through in this government-to-government initiative (see [Another Positive Catalyst](#)). On SGX India equity derivatives, it is: 1) working with NSE to develop a link in GIFT City; and 2) to list successor products soon (which require regulators' approvals) and plans to engage market participants to roll into these successor products from the current SGX Nifty suite of products.

FYE Jun (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	818	801	850	896	932
EBITDA	469	460	503	543	553
Core net profit	349	340	376	407	413
Core FDEPS (cts)	32.5	31.6	35.0	37.9	38.5
Core FDEPS growth(%)	0.2	(2.7)	10.6	8.5	1.4
Net DPS (cts)	28.0	28.0	28.5	30.8	31.8
Core FD P/E (x)	22.9	23.5	21.3	19.6	19.3
P/BV (x)	8.1	7.7	7.2	6.6	6.2
Net dividend yield (%)	3.8	3.8	3.8	4.1	4.3
ROAE (%)	35.5	33.6	35.1	35.1	33.0
ROAA (%)	17.9	16.4	18.0	18.6	18.0
EV/EBITDA (x)	15.6	15.4	14.1	12.9	12.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	370	397	415
MKE vs. Consensus (%)	-	-	1.6	2.7	(0.5)

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BUY

Share Price SGD 7.44
 12m Price Target SGD 8.73 (+17%)
 Previous Price Target SGD 8.73

Company Description

SGX provides listing, trading, clearing, settlement, depository and data services.

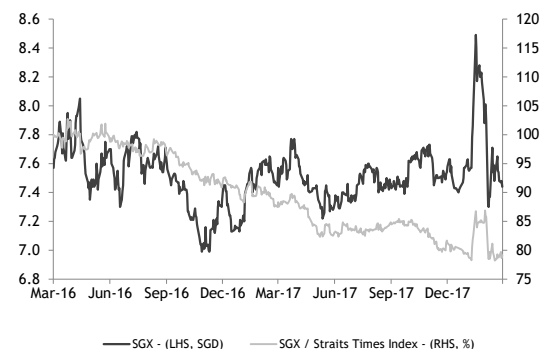
Statistics

52w high/low (SGD)	8.49/7.22
3m avg turnover (USDm)	18.0
Free float (%)	71.2
Issued shares (m)	1,072
Market capitalisation	SGD8.0B USD6.1B

Major shareholders:

SEL Holdings	23.4%
Japan Exchange Group, Inc.	5.0%
The Vanguard Group, Inc.	1.7%

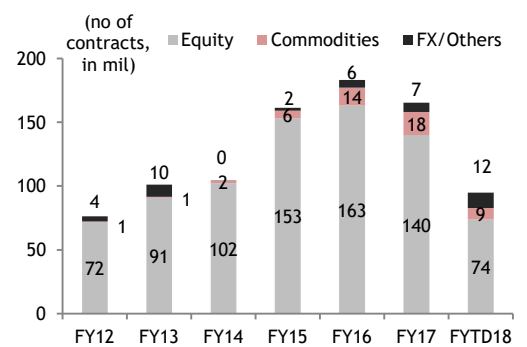
Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(1)	(0)
Relative to index (%)	(10)	(4)	(11)

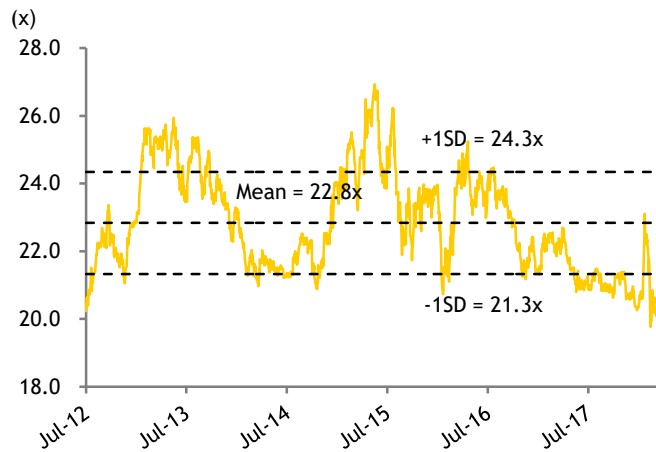
Source: FactSet

Breakdown of Derivatives' volumes



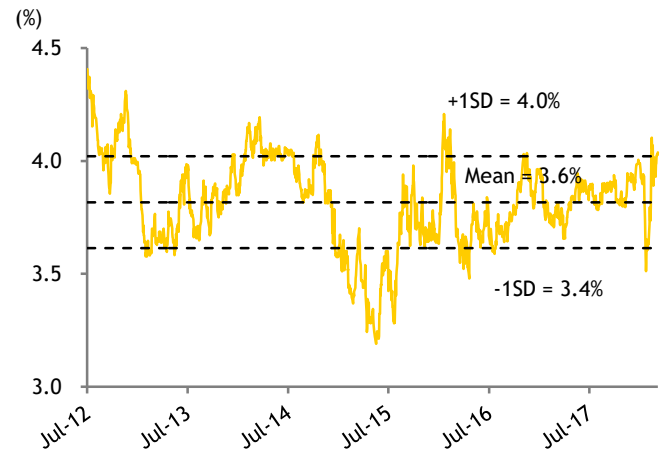
Source: Company. FYTD18 as at 1H18.

Fig 1: SGX's 12M forward rolling P/E band



Source: Bloomberg, Maybank Kim Eng

Fig 2: SGX's 12M forward rolling dividend yield



Source: Bloomberg, Maybank Kim Eng

Fig 3: Peer comparison

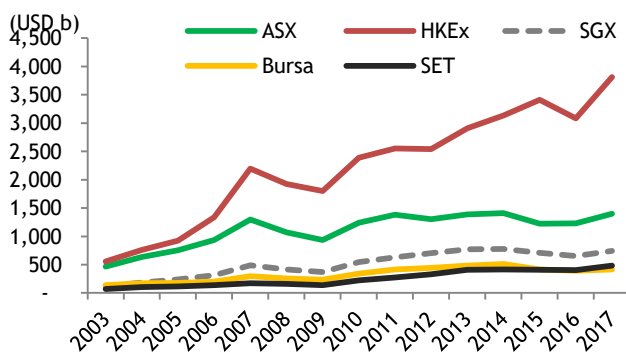
Company	Ticker	Rec.	Curr.	Market cap	Share price	Target price	P/E (x)			3Y EPS CAGR	P/BV (x)			ROAE (%)			Div. yield (%)		
							18E	19E	20E		18E	19E	20E	18E	19E	20E	18E	19E	20E
Asia Pacific/Oceania																			
Singapore Exchange*	SGX SP	BUY	SGD	6,081.5	7.48	8.73	21.4	19.7	19.4	6.7	7.2	6.6	6.2	35.1	35.1	33.0	3.8	4.1	4.3
Australian Securities Exchange*	ASX AU	NR	AUD	8,892.4	58.67	N.A.	24.6	23.5	22.4	5.3	2.9	2.8	2.8	11.7	12.1	12.5	3.6	3.8	4.0
Hong Kong Exch & Clearing	388 HK	NR	HKD	44,789.9	283.00	N.A.	36.5	32.2	27.2	20.0	9.1	8.7	9.3	25.3	27.5	31.0	2.5	2.8	3.4
Bursa Malaysia	BURSA MKHOLD	MYR	1,528.4	11.10	10.60	26.2	25.6	25.1	2.1	6.9	6.9	6.9	26.6	27.0	27.4	3.8	4.0	4.1	
New Zealand Stock Exchange	NZX NZ	NR	NZD	213.5	1.09	N.A.	17.3	16.0	14.9	9.9	4.3	4.2	4.0	24.3	25.6	27.0	5.8	6.1	6.2
Asia Pac Weighted Avg (incl SGX)							33.0	29.5	25.7	16.1	8.0	7.6	8.0	24.3	26.0	28.4	2.8	3.1	3.6
Asia Pac Weighted Avg (excl SGX)							34.3	30.5	26.3	17.1	8.1	7.7	8.2	23.1	25.0	27.9	2.7	3.0	3.5
Europe																			
Deutsche Boerse	DB1 GR	NR	EUR	25,567.6	106.80	N.A.	20.4	18.1	16.4	10.9	3.8	3.4	3.3	19.4	19.9	21.0	2.6	2.9	3.1
London Stock Exchange	LSE LN	NR	GBP	18,669.6	38.77	N.A.	22.1	19.9	19.1	12.4	3.9	3.5	3.3	18.4	18.9	18.2	1.3	1.5	1.7
Hellenic Exchanges	EXAE GA	NR	EUR	372.5	4.96	N.A.	85.4	36.2	24.2	89.8	2.5	2.4	2.4	2.8	7.1	10.2	1.5	2.9	3.9
Europe Weighted Avg							21.7	19.0	17.6	12.2	3.8	3.4	3.3	18.8	19.4	19.7	2.0	2.3	2.5
Americas																			
CME Group	CME US	NR	USD	57,725.4	169.59	N.A.	26.4	24.5	22.1	(13.7)	2.6	2.5	2.5	10.1	10.6	10.9	3.8	4.0	4.4
NASDAQ	NDAQ US	NR	USD	13,976.1	83.91	N.A.	17.4	15.9	14.8	9.5	2.3	2.1	1.9	13.6	22.0	N.A.	2.0	2.2	2.6
Intercontinental Exchange	ICE US	NR	USD	42,705.5	73.34	N.A.	20.6	18.6	16.8	1.0	2.4	2.3	2.3	11.7	12.4	N.A.	1.3	1.4	1.6
US Weighted Avg							23.2	21.2	19.2	(5.4)	2.5	2.4	2.3	11.1	12.7	5.5	2.6	2.8	3.2
Total Weighted Avg (incl SGX)							25.9	23.2	20.8	7.6	4.8	4.5	4.5	18.1	19.3	17.9	2.5	2.7	3.1
Total Weighted Avg (excl SGX)							26.4	23.6	21.1	8.0	4.8	4.5	4.6	17.7	19.0	17.7	2.5	2.7	3.1

Source: Bloomberg, Maybank Kim Eng. Share prices as of 6 Mar 2018. *For SGX and ASX, FY ending June. For Hellenic Exchange which has yet to report its FY17 results, FY18E refers to FY17E, and FY19E refers to FY18E and so on.

Value Proposition

- Focuses on growing different businesses/asset classes, such as index business and FX.
- Against most Asian markets that have high FX restrictions or closed capital accounts, Singapore is relatively attractive for investing / hedging investible assets.
- Securities market cap lags regional peers as it has not been able to attract bigger IPO listings. Low valuations have triggered more de-listings.
- More successful in attracting REITs, business trusts and high-dividend-paying mature companies. There are 50 REITs and business trusts comprising 7% of total listings.
- Demand for yield is supported by high savings rate, greying population and favourable tax regime. Country is a safe haven that attracts capital from the region/globe.
- Net cash position to fund acquisitions or partnerships that can offer complementary products.

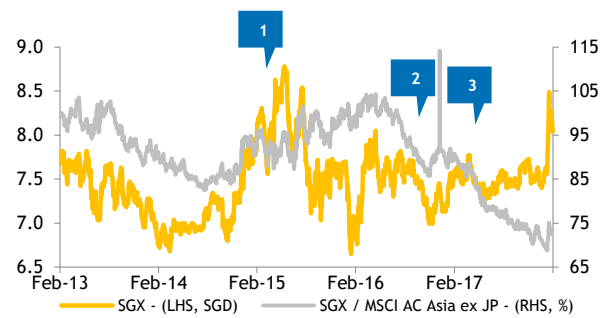
SGX's equity market cap lags regional peers



Source: World Federation of Exchanges, Maybank Kim Eng

Price Drivers

Historical share price trend



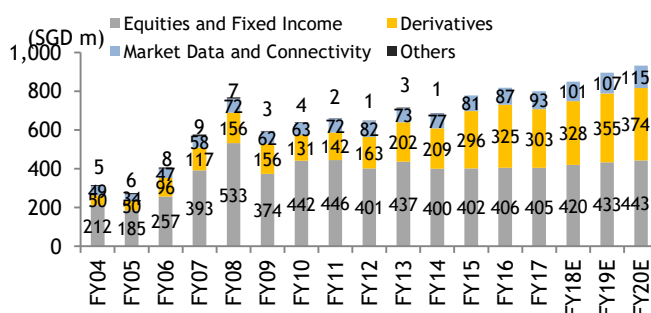
Source: Company, FactSet, Maybank Kim Eng

1. Robust growth in China A50 and iron-ore contracts bumped up derivatives revenue in 2Q15 and 3Q15.
2. 1Q17 net profit fell 16% YoY. Subdued trading volumes due to concerns on political uncertainties and slower global economic growth.
3. Securities daily average traded value (SDAV) reached a new high of SGD1.4b.

Financial Metrics

- Turnover velocity generally down due to lower traded value from lack of liquidity and lacklustre market activities. Velocity down from 39% in FY12 to 29% in FY17.
- Higher mix of warrants and ETFs would lower average clearing fees as these products carry lower fees. Average fee per derivative contract lower due to pricing revisions and changes in mix of derivatives contracts.
- Management guided for FY18 capex of SGD60-65m, similar to levels in previous year.
- FY18E DPS of 28.5cts implies 81% payout. Interim DPS of 5cts maintained in 2Q18. Expect stable yield of 3.8% in FY18E.

Segmental operating revenue



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Stronger-than-expected SDAV and derivatives daily average volume (DDAV).
- Sizeable acquisitions or partnerships that can offer complementary or new product offerings to lift revenue.

Downside

- Inability to price up due to competition from other exchanges and new entrants.
- Capital-raising efforts to make large acquisitions could dilute ROEs.



FYE 30 Jun	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	23.1	23.4	21.2	19.5	19.3
Core P/E (x)	22.8	23.4	21.2	19.5	19.3
Core FD P/E (x)	22.9	23.5	21.3	19.6	19.3
P/BV (x)	8.1	7.7	7.2	6.6	6.2
P/NTA (x)	8.3	8.2	7.6	7.0	6.5
Net dividend yield (%)	3.8	3.8	3.8	4.1	4.3
FCF yield (%)	4.4	4.0	4.9	5.1	5.0
EV/EBITDA (x)	15.6	15.4	14.1	12.9	12.5
EV/EBIT (x)	17.8	17.6	16.1	14.6	14.3
INCOME STATEMENT (SGD m)					
Revenue	818.1	800.8	849.7	895.7	931.8
Gross profit	409.1	401.8	439.7	477.3	483.7
EBITDA	469.0	459.5	502.5	542.7	553.3
Depreciation	(59.9)	(57.7)	(62.9)	(65.4)	(69.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	409.1	401.8	439.7	477.3	483.7
Net interest income / (exp)	9.4	9.4	9.8	10.3	10.8
Associates & JV	1.1	1.4	1.4	1.5	1.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(3.7)	(3.7)	1.7	1.7	1.8
Pretax profit	416.0	408.9	452.6	490.9	497.8
Income tax	(66.9)	(69.2)	(76.9)	(83.5)	(84.6)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	349.0	339.7	375.6	407.4	413.2
Core net profit	349.0	339.7	375.6	407.4	413.2
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	866.3	796.4	891.6	976.0	1,043.8
Accounts receivable	930.0	814.7	841.2	850.9	875.9
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	62.0	80.4	108.9	114.4	121.8
Intangible assets	25.6	63.5	64.0	64.0	64.0
Investment in Associates & JVs	9.4	10.3	12.2	13.7	15.2
Other assets	212.2	275.8	222.8	224.0	227.0
Total assets	2,105.5	2,041.2	2,140.8	2,243.0	2,347.6
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	1,012.7	891.6	909.2	904.7	922.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.3	0.0	0.3	0.3	0.3
Other liabilities	103.0	117.0	123.0	128.0	131.0
Total Liabilities	1,115.9	1,008.7	1,032.4	1,032.6	1,054.1
Shareholders Equity	989.6	1,032.5	1,108.3	1,210.3	1,293.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	989.6	1,032.5	1,108.3	1,210.3	1,293.4
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	2,105.5	2,041.2	2,140.8	2,243.0	2,347.6
CASH FLOW (SGD m)					
Pretax profit	416.0	408.9	452.6	490.9	497.8
Depreciation & amortisation	59.9	57.7	62.9	65.4	69.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	15.8	(23.3)	3.4	(12.2)	(12.2)
Cash taxes paid	(70.3)	(67.1)	(76.9)	(83.5)	(84.6)
Other operating cash flow	2.1	1.5	15.4	16.1	7.8
Cash flow from operations	423.5	377.7	457.2	476.8	478.4
Capex	(73.8)	(60.0)	(65.0)	(72.0)	(80.0)
Free cash flow	349.6	317.8	392.2	404.8	398.4
Dividends paid	(332.2)	(299.9)	(305.4)	(330.1)	(340.8)
Equity raised / (purchased)	(12.6)	(8.6)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	10.7	(87.6)	8.4	9.7	10.2
Effect of exch rate changes	0.0	0.6	0.0	0.0	0.0
Net cash flow	15.5	(77.8)	95.2	84.4	67.8

FYE 30 Jun	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	5.1	(2.1)	6.1	5.4	4.0
EBITDA growth	2.2	(2.0)	9.4	8.0	2.0
EBIT growth	1.8	(1.8)	9.4	8.6	1.3
Pretax growth	1.1	(1.7)	10.7	8.5	1.4
Reported net profit growth	0.1	(2.7)	10.6	8.5	1.4
Core net profit growth	0.1	(2.7)	10.6	8.5	1.4
Profitability ratios (%)					
EBITDA margin	57.3	57.4	59.1	60.6	59.4
EBIT margin	50.0	50.2	51.7	53.3	51.9
Pretax profit margin	50.8	51.1	53.3	54.8	53.4
Payout ratio	85.9	88.2	81.2	80.9	82.4
DuPont analysis					
Net profit margin (%)	42.7	42.4	44.2	45.5	44.3
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.1	2.0	1.9	1.9	1.8
ROAE (%)	35.5	33.6	35.1	35.1	33.0
ROAA (%)	17.9	16.4	18.0	18.6	18.0
Liquidity & Efficiency					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	348.4	392.2	350.8	340.1	333.6
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	761.9	859.1	790.4	780.4	734.0
Dividend cover (x)	1.2	1.1	1.2	1.2	1.2
Current ratio (x)	1.6	1.7	1.7	1.8	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.9	2.0	2.1	2.2	2.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	9.0	7.5	7.6	8.0	8.6
Net debt/ (net cash)	(866.0)	(796.4)	(891.3)	(975.7)	(1,043.5)

Source: Company; Maybank

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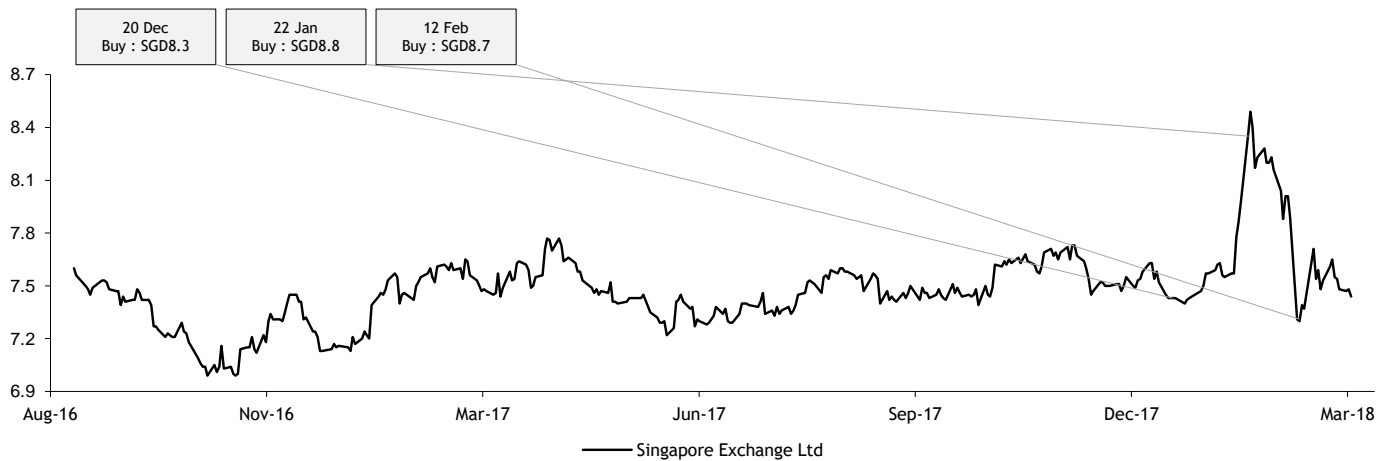
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