

# Singapore Exchange Limited

Market volatility will drive growth



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SINGAPORE | FINANCE | UPDATE

14 February 2018

- NSE, BSE and MSEI will terminate arrangements to licence Indian Indices and/or data of Indian securities to foreign exchanges and/or any exchange, trading or settling venue outside of India.
- SGX is a major trading venue for offshore Nifty 50 Equity Index Futures. As a result, we expect SGX to lose some FX/Equity synergies.
- We do not expect significant impact to Market data and Connectivity revenue.
- **Upgrade BUY with lower TP of S\$8.89 (previous TP S\$9.00) based on DCF.**

## What's in the News?

The National Stock Exchange of India (NSE), Bombay Stock Exchange (BSE) and Metropolitan Stock Exchange of India (MSEI) had issued a joint statement on 9 February 2018 to terminate the distribution of market data and prices of Indian securities to foreign exchanges and/or any exchange, trading or settling venue outside of India. Large volumes of Nifty 50 equity futures and open interests currently reside in foreign jurisdictions which resulted in migration of liquidity from India.

## What do we think?

At first blush, the impact will be to the open interest and traded volume of the Nifty 50 Equity futures on SGX. We estimate that Nifty 50 make up c.12% of SGX's total derivatives volume. Other knock on effects will be the lost of synergies between the FX/equity derivatives pairing. Presently, the INR/USD FX futures make up 5% of the SGX's total derivatives volume. However, we do not expect significant impact to the Market data and Connectivity revenue as data is sold in a bundle and is unlikely to witness a fall in demand due to the exclusion of the Indian securities data.

After the joint announcement by NSE, BSE and MSEI, SGX will be serving a notice period of 6 months until August 2018 to ensure continuity of listing and trading of SGX's Nifty suite of derivative products. Within this period, SGX will develop and launch new India-access risk management solutions for global participants who have been trading SGX's India equity index derivatives. SGX will also work jointly with NSE to develop solutions onshore India. The location will be at NSE's International Exchange in Gujarat International Finance Tech city – International Financial Services Centre.

For FY18e, we are estimating a c.S\$10mn loss of revenue from the Indian derivatives and the associated synergies in the 2H18. As a result, we are revising FY18e derivatives revenue to S\$342mn from previous estimate of S\$352mn. Despite the lower estimates, SGX is still expected to register a full year growth of c.13% for its derivatives business in FY18. Our FY18e net profit estimate has also been revised lower to S\$363mn from previous estimate of S\$367mn.

We emphasise that SGX's derivatives business will continue to grow because we expect the strong performance from China A50 and the Iron Ore complex will offset the potential loss of the Nifty 50 business. China A50 and Iron Ore volume combined make up 45% of SGX's total derivatives volume. Trading volume will be strong for the SGX's Iron Ore 62% as market participants focus trading on higher quality iron ore as it carries wider margins. And we expect strong pick up in China A50 volumes as activity in Chinese capital market gain momentum.

## Investment Actions

**Upgrade BUY with lower TP of S\$8.89 (previous TP S\$9.00) based on DCF.**

## Buy (Upgrade)

LAST DONE PRICE	SGD 7.33
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 8.89
<b>TOTAL RETURN</b>	<b>25.7%</b>

## COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1071
MARKET CAP (USD mn / SGD mn) :	5933 / 7850
52 - WK HI/LO (SGD) :	8.5 / 7.2
3M Average Daily T/O (mn) :	2.73

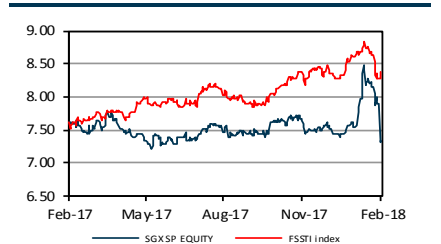
## MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.34%
Norges bank Investment Mgmt	1.17%
Vanguard Group Inc	0.99%

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(2.6)	(4.1)	(0.4)
STIRETURN	(3.70)	(0.65)	12.74

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E June	FY 16	FY 17	FY 18 e	FY 19 e
Revenue (SGD mn)	818	801	836	867
EBITDA (SGD mn)	469	460	478	495
NPAT (SGD mn)	349	340	363	383
EPS (Cents)	32.6	31.8	33.9	35.7
PER, (X)	22.2	23.8	21.8	20.6
P/BV, (X)	7.9	8.2	7.6	7.2
DPS (Cents)	28.0	28.0	32.0	32.0
Div Yield, (%)	4%	4%	4%	4%
ROE, (%)	36%	34%	34%	34%

Source: Bloomberg, Company, PSR

## Valuation Method: DCF

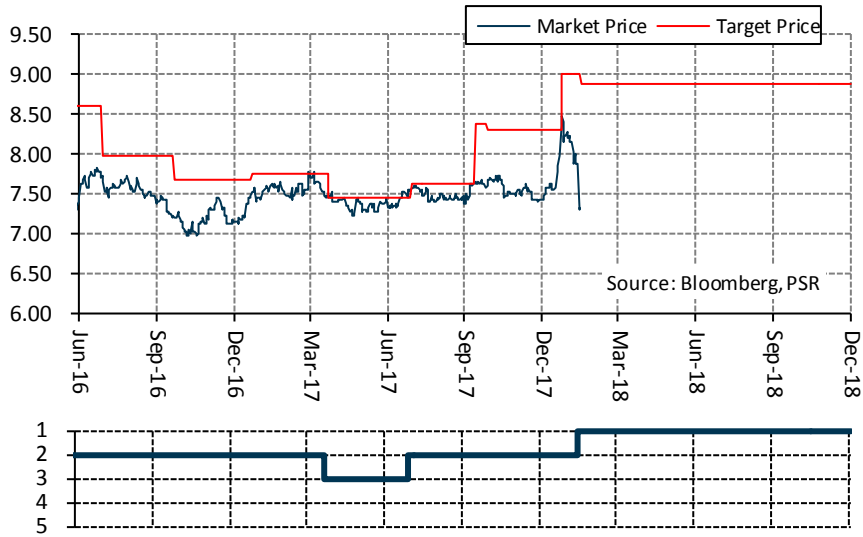
(WACC: 7.3%, Terminal Growth Rate: 1.1%)

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**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

## Financials

### Income Statement

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
Securities	205	205	205	211	210
Derivatives	325	303	342	360	372
Others	288	293	289	297	302
<b>Operating revenue</b>	<b>818</b>	<b>801</b>	<b>836</b>	<b>867</b>	<b>884</b>
Operating expenses	409	399	413	418	428
<b>Operating profit</b>	<b>409</b>	<b>402</b>	<b>423</b>	<b>449</b>	<b>456</b>
Other gains/(losses)	6	6	10	10	10
Associates & JVs	1	1	2	2	1
<b>Profit Before Tax</b>	<b>416</b>	<b>409</b>	<b>435</b>	<b>460</b>	<b>467</b>
Taxation	(67)	(69)	(72)	(77)	(78)
<b>Net Income, reported</b>	<b>349</b>	<b>340</b>	<b>363</b>	<b>383</b>	<b>389</b>
<b>Net Income, adj.</b>	<b>349</b>	<b>340</b>	<b>363</b>	<b>383</b>	<b>389</b>

### Per share data (SGD Cents)

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
EPS, reported	32.6	31.8	33.9	35.7	36.4
DPS	28.0	28.0	32.0	32.0	32.0
BVPS	91.2	92.5	96.5	102.6	106.4

### Cash Flow

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
CFO					
<b>Profit before tax and Assoc.&amp;JV</b>	<b>415</b>	<b>407</b>	<b>433</b>	<b>458</b>	<b>466</b>
Depreciation & Amortisation	60	58	55	47	49
WC changes	17	(21)	(20)	(18)	11
Others	2	3	1	(1)	(1)
Cash generated from ops	494	447	469	487	524
Tax paid	(70)	(67)	(72)	(77)	(78)
<b>Cashflow from ops</b>	<b>423</b>	<b>380</b>	<b>396</b>	<b>410</b>	<b>447</b>
CFI					
CAPEX, net	(74)	(60)	(71)	(67)	(68)
Others	11	(87)	13	10	10
<b>Cashflow from investments</b>	<b>(63)</b>	<b>(147)</b>	<b>(58)</b>	<b>(57)</b>	<b>(59)</b>
CFF					
Loans, net of repayments	0	0	0	0	4
Dividends	(332)	(300)	(300)	(343)	(343)
Others	(13)	(9)	0	0	(4)
<b>Cashflow from financing</b>	<b>(345)</b>	<b>(308)</b>	<b>(300)</b>	<b>(343)</b>	<b>(343)</b>
<b>Net change in cash</b>	<b>15</b>	<b>(76)</b>	<b>38</b>	<b>10</b>	<b>45</b>
<b>CCE, end</b>	<b>806</b>	<b>736</b>	<b>773</b>	<b>782</b>	<b>827</b>

Source: Company, PSR

\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

### Balance Sheet

Y/E Jun, SGD mn	FY16	FY17	FY18e	FY19e	FY20e
<b>ASSETS</b>					
PPE	62	80	61	63	63
Others	245	348	349	354	360
<b>Total non-current assets</b>	<b>307</b>	<b>429</b>	<b>410</b>	<b>417</b>	<b>423</b>
Accounts receivables	930	815	841	846	857
Cash	806	736	773	782	827
Securities clearing funds	60	60	60	60	60
Others	3	1	1	1	1
<b>Total current assets</b>	<b>1,799</b>	<b>1,613</b>	<b>1,675</b>	<b>1,689</b>	<b>1,745</b>
<b>Total Assets</b>	<b>2,105</b>	<b>2,041</b>	<b>2,085</b>	<b>2,107</b>	<b>2,169</b>
<b>LIABILITIES</b>					
Accounts payables	1,013	892	869	850	864
Short term loans	0	0	0	0	0
Others	85	82	81	81	81
<b>Total current liabilities</b>	<b>1,098</b>	<b>973</b>	<b>950</b>	<b>930</b>	<b>945</b>
Long term loans	0	0	0	0	0
Others	18	35	36	36	36
<b>Total non-current liabilities</b>	<b>18</b>	<b>35</b>	<b>36</b>	<b>36</b>	<b>36</b>
<b>Total Liabilities</b>	<b>1,116</b>	<b>1,009</b>	<b>986</b>	<b>967</b>	<b>981</b>
<b>EQUITY</b>					
Non-controlling interests	0	0	0	0	0
<b>Shareholder Equity</b>	<b>990</b>	<b>1,033</b>	<b>1,099</b>	<b>1,140</b>	<b>1,187</b>

### Valuation Ratios

Y/E Jun	FY16	FY17	FY18e	FY19e	FY20e
P/E (X), adj.	22.2	23.8	21.8	20.6	20.3
P/B (X)	7.9	8.2	7.6	7.2	6.9
EV/EBITDA (X), adj.	8.8	9.4	8.9	8.6	8.5
Dividend Yield (%)	3.9%	3.7%	4.3%	4.3%	4.3%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	10.2%	-2.1%	4.4%	3.7%	1.9%
EBITDA	10.0%	-6.8%	13.0%	1.4%	2.2%
EBIT	10.2%	-2.1%	4.4%	6.0%	1.6%
Net profit, adj.	0.0%	-2.7%	6.8%	5.5%	1.7%
<b>Margins</b>					
EBITDA margin	57.3%	57.4%	57.2%	57.1%	57.1%
EBIT margin	50.0%	50.2%	50.6%	51.7%	51.6%
Net profit margin	42.7%	42.4%	43.4%	44.2%	44.1%

### Key Ratios

ROE (%)	35.5%	33.6%	34.0%	34.2%	33.5%
ROA (%)	17.9%	16.4%	17.6%	18.3%	18.2%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

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