



Singapore Exchange Limited

Growth led by newly acquired businesses

SINGAPORE | FINANCE | 2H22 RESULTS

- FY22 revenue of S\$1.1bn was slightly below our estimates, at 94% of FY22e, while earnings of S\$452mn met our estimates, at 99% of our FY22e. Variance came from lower-than-expected equity revenue due to lower treasury income. FY22 DPS was stable at 32 cents.
- FICC and DCI grew 19%/3% YoY, led by an increase in OTC FX revenue and an increase in data and services subscriptions.
- Excluding treasury income, revenue was up 7% YoY, driven by higher derivatives volumes across equities, currencies and commodities.
- Equities – Cash & Derivatives was 4% higher YoY as higher trading and clearing revenue was offset by lower treasury income due to the lower net yield.
- Upgrade to BUY with a higher target price of S\$11.71.** Our TP is pegged to 26x FY23e P/E, +2SD of its 5-year mean. Catalysts include continued growth from new acquisitions and higher treasury income as the higher interest rates start to kick in.

Results at a glance

(SGD mn)	2H22	2H21	YoY	Comments
Fixed Income, Currencies & Commodities (FICC)	138.8	112.5	23%	Grew mainly due to higher transaction volume from OTC FX (comprising BidFX, Maxxtrader and ECN) as well as commodity and currency derivatives offset by lower fixed income.
Equities - Cash & Derivatives	364.4	350.2	4%	Lower treasury and other revenue due to lower treasury income were more than offset by higher trading and clearing revenue.
Data, Connectivity & Indices (DCI)	74.3	72.4	3%	Growth mainly due to an increase in data subscription and subscription to co-location services.
Total Revenue	577.5	535.1	8%	
OPEX	(249.3)	(231.4)	8%	Rose mainly from mainly from higher staff costs, technology expenses and royalties. Excluding OTC FX and Scientific Beta, operating expenses would have increased 6% YoY.
Operating profit	277.9	258.2	8%	
Net profit	232.9	205.8	13%	

Source: Company, PSR

The Positives

+ New businesses accelerated growth. With the acquisition of MaxxTrader in Jan 2022, SGX's OTC FX (BidFX, MaxxTrader and Electronic Communication Network (ECN)) average daily volume grew 64% YoY to US\$70.6bn with a target of US\$100bn in the medium term, and contributed S\$55mn, or 5%, to FY22 revenue. Consequently, FICC and DCI grew 23% and 3% YoY respectively to boost revenue growth. Both businesses are expected to remain growth engines for SGX, with opportunities from cross-selling and new client acquisitions on the back of customer access to an enlarged trading network.

+ Underlying business resilient. Excluding treasury income, revenue grew 7% YoY, lifted by higher trading and clearing revenues from equity derivatives, currencies, and commodities. Treasury and other revenue income dropped as treasury income was affected by lower yields from low interest rates.

+ FTSE China A50 and Nifty 50 contracts continue to grow. Despite the introduction of HKEX's MSCI China A50 Connect Index in Oct 2021, SGX's FTSE China A50 contract saw increased volume, with growth of 9% YoY. SGX expects trading activity and open interest of the FTSE

19 August 2022

BUY (Upgraded)

LAST DONE PRICE	SGD 10.00
FORECAST DIV	SGD 0.32
TARGET PRICE	SGD 11.71
TOTAL RETURN	20.3%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1068
MARKET CAP (USD mn / SGD mn) :	7720 / 10680
52 - WK HI/LO (SGD) :	10.96 / 8.93
3M Average Daily T/O (mn) :	2.17

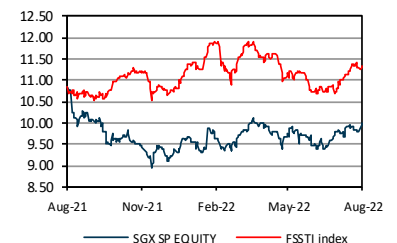
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.3%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	16	2.9	(3.3)
STIRETURN	6.6	3.3	9.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY21	FY22	FY23e	FY24e
Revenue (SGD mn)	1056	1099	1,178	1,226
EBITDA (SGD mn)	625	634	676	703
NPAT (SGD mn)	446	452	485	462
EPS (Cents)	416	42.2	45.0	46.8
PER, (X)	24.0	23.7	22.2	21.4
P/BV, (X)	8.6	7.7	6.9	7.1
DPS (Cents)	32.0	32.0	32.0	32.0
Div Yield	3.2%	3.2%	3.2%	3.2%
ROE	33.8%	30.8%	31.5%	31.5%

Source: Bloomberg, Company, PSR

Valuation Method

P/E Multiple @26x

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China A50 contract to continue growing as the international A-share market expands. SGX's Nifty 50 contract also showed increased volume and grew 14% YoY.

The Negatives

- **Equities – Cash revenue and treasury income dip.** Equities – Cash revenue was 6% lower YoY mainly due to corporate actions and other revenue dipping 14% YoY and trading and clearing revenue decreasing 9% YoY as daily average traded value, total traded value and overall average clearing fees declined. On the Equities – Derivatives side, treasury revenue was down 50% YoY to S\$28.6mn mainly from treasury income, which declined primarily due to lower net yield. Nonetheless, this was offset by an increase of 22% YoY in trading and clearing revenue as equity derivatives volume increased 4% YoY and higher fees per contract of S\$1.51 in FY22 (FY21: S\$1.34), 13% higher YoY. Overall, equities revenue was stable YoY at S\$699mn and accounted for 64% (FY21: 66%) of revenue.

Outlook

Continued development of multi-assets to anchor long-term growth. SGX remains committed to expanding its suite of products through strategic partnerships and new product development for newly acquired businesses.

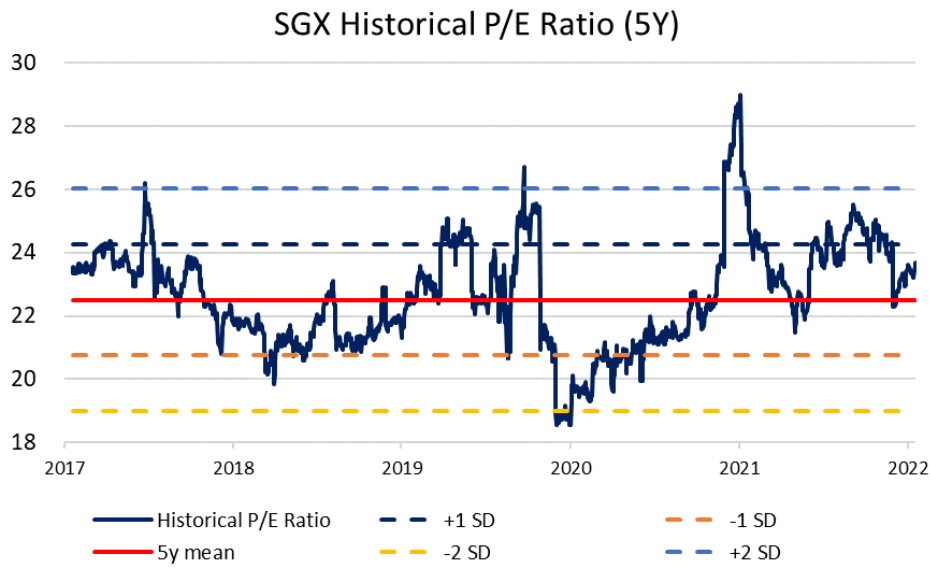
Investing for the medium term. SGX has guided FY23 expenses to grow 7-9% from FY21. This includes ~2% growth from the full year impact of the acquisition of MaxxTrader. The higher expenses are mainly from the buildout of their OTC FX business and higher staff costs from salary increments. With that, SGX expects medium-term expense guidance to remain at mid-single digit growth.

Rising interest rates. Apart from the banks, SGX is another beneficiary of higher interest rates, and treasury income is expected to recover with rising interest rates, with SGX's management mentioning that the low treasury income is to remain for the following months, with only an uptick expected later in the year. As at FY21, SGX reported a S\$12bn float from collateral and S\$72mn of interest income which represents 13% of FY21 operating profit. Based on our calculations, a 25 basis point rate hike would mean an increase of S\$30mn in operating profit (or a 6% uplift).

Investment Actions

Upgrade to BUY with a higher target price of S\$11.71. Our target price remains pegged to +2SD of its 5-year mean or 26x P/E (Figure 2). Catalysts include continued growth from new acquisitions and higher treasury income as economic conditions improve.

Figure 1: Valuation pegged to 2SD of its 5-year average P/E



Source: Bloomberg, PSR

Financials

Income Statement

Y/E Jun, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Operating revenue	1,053	1,056	1,099	1,178	1,226
Operating expenses	(397)	(431)	(465)	(502)	(523)
EBITDA	656	625	634	676	703
Depreciation & amortisation	(90)	(95)	(97)	(91)	(134)
Operating profit	566	531	537	585	570
Other gains/(losses)	7	10	18	8	8
Associates & JVs	(2)	(4)	(11)	(8)	(13)
Profit before tax	571	536	545	584	566
Tax	(99)	(91)	(93)	(99)	(103)
Net profit after tax	472	446	452	485	462
Profit attributable to shareholders	472	446	452	481	501

Per share data (SGD Cents)

Y/E Jun	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	44	42	42	45	47
DPS	31	32	32	32	32
BVPS	102	117	130	145	141
Payout ratio	69%	77%	76%	71%	68%

Cash Flow

Y/E Jun, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax and Assoc.&JV	573	541	555	589	616
Depreciation & Amortisation	90	95	97	83	87
WC changes	23	35	60	(34)	34
Others	6	17	20	0	28
Cash generated from ops	692	687	732	638	766
Tax paid	(72)	(109)	(99)	(99)	(103)
Cashflow from ops	620	577	633	539	662
CFI					
CAPEX, net	(35)	(45)	(44)	(60)	(60)
Others	(10)	(46)	(17)	0	0
Cashflow from investments	(44)	(91)	(61)	(60)	(60)
CFE					
Loans, net of repayments	0	184	0	0	0
Dividends	(321)	(342)	(342)	(343)	(343)
Others	(17)	(438)	(101)	0	0
Cashflow from financing	(338)	(596)	(443)	(343)	(343)
Net change in cash	237	(110)	128	136	260
CCE, end	686	833	752	894	882

Source: Company, PSR

Balance Sheet

Y/E Jun, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE	51	50	34	35	35
Software	168	166	166	180	195
Intangible assets	108	122	118	115	113
Goodwill	329	541	708	708	708
Others	307	293	669	618	618
Total non-current assets	963	1,173	1,695	1,657	1,669
Accounts receivables	758	749	1,061	993	1,081
Cash	847	1,000	938	894	882
Securities clearing funds	60	60	60	60	60
Others	51	41	94	94	94
Total current assets	1,716	1,850	2,153	2,042	2,117
Total Assets	2,679	3,023	3,848	3,698	3,786

LIABILITIES

Accounts payables	809	868	1,262	1,147	1,253
Short term loans	0	0	0	0	0
Others	449	362	257	116	116
Total current liabilities	1,258	1,230	1,519	1,263	1,369
Lease liabilities	70	51	31	0	0
Long term loans	-	-	-	-	-
Others	103	108	132	132	132
Total non-current liabilities	172	159	163	132	132
Total Liabilities	1,430	1,389	1,682	1,394	1,501

EQUITY

Non-controlling interests	4	4	4	4	4
Shareholder Equity	1,249	1,386	1,545	1,508	1,670

Valuation Ratios

Y/E Jun	FY20	FY21	FY22	FY23e	FY24e
P/E (X), adj.	22.7	24.0	23.7	22.2	21.4
P/B (X)	9.8	8.6	7.7	6.9	7.1
EV/EBITDA (X), adj.	16.3	17.1	13.8	12.9	12.4
Dividend Yield	3.1%	3.2%	3.2%	3.2%	3.2%

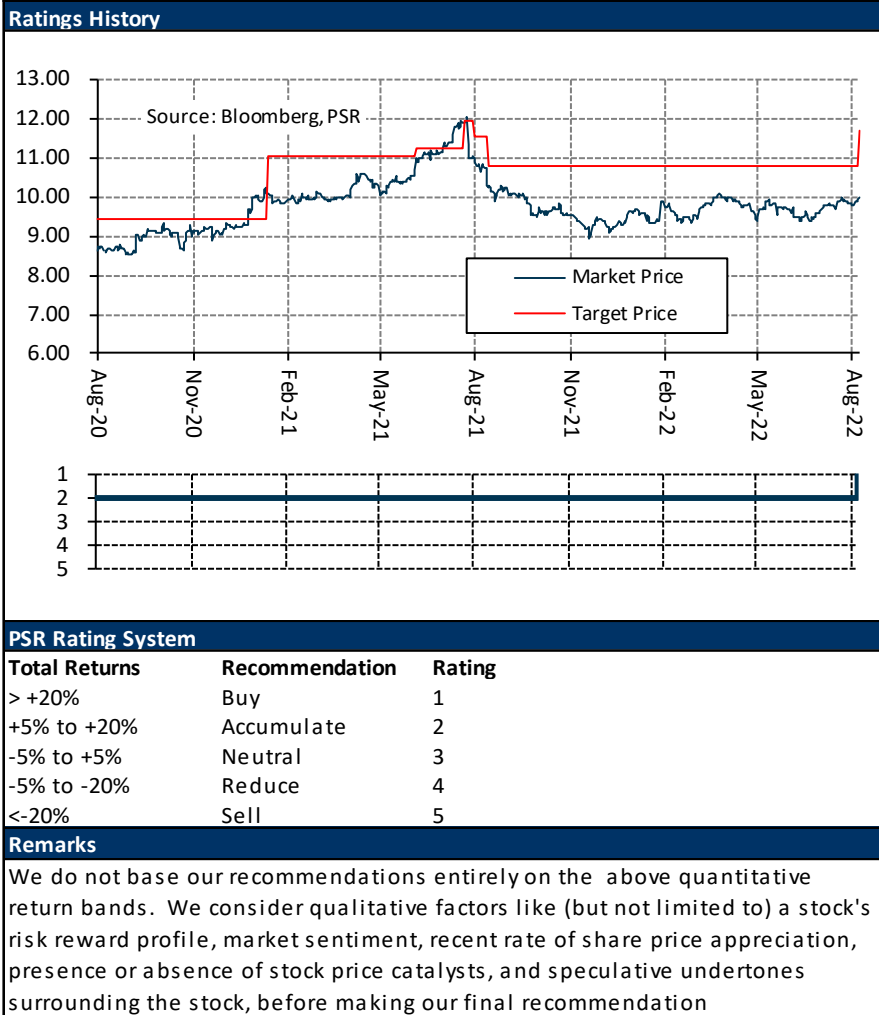
Growth & Margins

Growth					
Revenue	15.7%	0.3%	4.1%	7.2%	4.0%
EBITDA	25.2%	-4.6%	1.4%	6.6%	4.0%
EBIT	22.7%	-6.2%	1.3%	8.8%	-2.5%
Net profit, adj.	20.7%	-5.6%	1.4%	6.5%	4.0%
Margins					
EBITDA margin	57.5%	62.3%	59.2%	57.7%	57.4%
EBIT margin	53.7%	50.3%	48.9%	49.6%	46.5%
Net profit margin	44.8%	42.2%	41.1%	40.9%	40.8%

Key Ratios

ROE	40.3%	33.8%	30.8%	31.5%	31.5%
ROA	19.6%	15.6%	13.2%	12.8%	13.4%

Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
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