



Singapore Exchange Limited

Treasury income surge to record high

SINGAPORE | FINANCE | 2H23 RESULTS

- FY23 revenue of S\$1,194mn met our estimates, at 101% of FY23e, while adjusted PATMI of S\$503mn was above our estimates, at 105% of FY23e. Variance came from higher-than-expected treasury income offset by lower listing revenue. FY23 DPS increased to 32.5 cents (FY22: 32 cents).
- Treasury income surged 177% YoY to S\$137mn for FY23 and reached a record high, mainly due to higher yield on margin balances from the higher interest rate environment.
- FICC grew 32% YoY, led by continued growth in commodity and currency derivatives volumes, higher OTC FX revenue and higher treasury income. Equities revenue was flat as higher treasury income was offset by lower trading and clearing, and listing revenue.
- We maintain BUY with an unchanged target price of S\$11.71.** Our target price is pegged to +1SD of its 5-year mean or 20x P/E. Catalysts include continued growth from derivatives volumes and fees and continued growth in treasury income as the higher interest rates start to kick in.

Results at a glance

| (SGD mn) | 2H23 | 2H22 | YoY | Comments |
|---|--------------|--------------|------------|---|
| Fixed Income, Currencies & Commodities (FICC) | 183.9 | 138.8 | 32% | Growth mainly due to continued growth in commodity and currency derivatives volumes, higher OTC FX revenue, and higher treasury income offset by lower listing and corporate actions revenue. |
| Equities - Cash & Derivatives | 364.5 | 364.4 | 0% | Equities - Derivatives trading and clearing revenue flat while treasury income surged which offset lower Equities - Cash trading and clearing revenue and lower listing revenue. |
| Data, Connectivity & Indices (DCI) | 74.6 | 74.3 | 0% | Growth was flat as higher connectivity revenue due to upselling of connectivity services and introduction of new GIFT Connect services was offset by lower market data and indices revenue from lower index business. |
| Total Revenue | 623.0 | 577.5 | 8% | |
| OPEX | (269.2) | (249.3) | 8% | Increase mainly from mainly from higher staff costs, technology expenses and royalties. Additional six months of expenses from MaxxTrader contributed 2.2% points to full year FY23 OPEX growth. |
| Operating profit | 305.5 | 277.9 | 10% | |
| Net profit | 285.9 | 232.9 | 23% | |
| Normalised net profit | 266.4 | 234.6 | 14% | |

Source: Company, PSR

The Positives

+ Treasury income surges to record levels. Treasury and other income surged 141% YoY to S\$111mn in 2H23 mainly due to higher interest earned from customer collateral balances. 2H23 treasury income on collateral balances held in trust was reported at S\$90mn, which surged 221% YoY from 2H22's treasury income of S\$28mn. Notably, full-year FY23's treasury income of S\$137mn contributed 20% to PBT and reached a record level, surpassing the previous high of FY20's treasury income of S\$135mn.

21 August 2023

BUY (Maintained)

| | |
|-----------------|-----------|
| LAST DONE PRICE | SGD 9.55 |
| FORECAST DIV | SGD 0.34 |
| TARGET PRICE | SGD 11.71 |
| TOTAL RETURN | 26.2% |

COMPANY DATA

| | |
|------------------------------|--------------|
| BLOOMBERG TICKER | SGX SP |
| O/S SHARES (MN) | 1068 |
| MARKET CAP (USD mn / SGD mn) | 7517 / 10199 |
| 52 - WK HI/LO (SGD) | 10.03 / 8.16 |
| 3M Average Daily T/O (mn) | 174 |

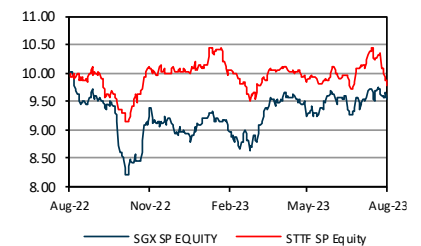
MAJOR SHAREHOLDERS (%)

| | |
|----------------------|-------|
| SEL Holdings Pte Ltd | 23.4% |
|----------------------|-------|

PRICE PERFORMANCE (%)

| | 1MTH | 3MTH | 1YR |
|-------------|------|------|-------|
| COMPANY | 1.1 | 3.7 | (0.2) |
| STTF RETURN | 0.1 | 2.5 | 2.7 |

PRICE VS. STTF



KEY FINANCIALS

| Y/E June | FY22 | FY23 | FY24e | FY25e |
|------------------|-------|-------|-------|-------|
| Revenue (SGD mn) | 1,099 | 1,194 | 1,319 | 1,343 |
| EBITDA (SGD mn) | 634 | 688 | 756 | 770 |
| NPAT (SGD mn) | 452 | 571 | 597 | 622 |
| EPS (Cents) | 42.2 | 53.4 | 57.2 | 61.1 |
| PER, (X) | 22.6 | 17.9 | 16.7 | 15.6 |
| P/BV, (X) | 7.4 | 6.6 | 6.0 | 5.3 |
| DPS (Cents) | 32.0 | 32.5 | 34.0 | 34.0 |
| Div Yield | 3.4% | 3.4% | 3.6% | 3.6% |
| ROE | 30.7% | 35.1% | 33.8% | 31.4% |

Source: Bloomberg, Company, P SR

Valuation Method

P/E Multiple @20x

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+ Higher fees from FTSE China A50 and Nifty 50 contracts. Despite equity derivatives volumes dipping 17% YoY in 2H23, Equities - Derivatives trading and clearing revenue only fell 10% YoY, as the lower volumes were offset by higher average fees from SGX Nifty 50 Index futures and SGX FTSE China A50 Index futures contracts. Average fee per contract for Equity, Currency and Commodity derivatives was higher at \$1.61 in FY23 (FY22: \$1.51) from an increase in higher fee-paying customers for SGX FTSE China A50 Index futures and Nifty 50 Index futures, coupled with strong volume growth in Iron Ore.

+ FICC – Currency and commodities continue growth. FICC - Currency and commodities trading and clearing revenue - rose 19% YoY to S\$118mn in 2H23, as volumes increased in commodity and currency derivatives, primarily from iron ore futures (up 37% YoY in 2H23) and USD/CNH FX futures; as well as higher contribution from OTC FX. SGX's OTC FX business (BidFX, MaxxTrader and Electronic Communication Network (ECN)) average daily volume grew 7.3% YoY to US\$75.8bn with a target of US\$100bn by FY25, and contributed S\$39.2mn, or 6%, to 2H23 revenue. SGX said that it is on track to reach its ADV target of US\$100bn as clients settle into the new platform.

The Negatives

- Listing revenue continues to dip. FICC - Fixed Income revenue - fell 28% YoY in 2H23 dragged down by lower listing revenue. There were 469 bond listings raising S\$139bn in 2H23 (2H22: 687 bond listings raised S\$220bn). On Cash equities, revenue was 12% lower YoY in 2H23 mainly due to listing revenue declining 9% YoY and trading and clearing revenue falling 21% YoY as daily average traded value, total traded value and overall average clearing fees fell. Overall, equities revenue accounted for 59% (2H22: 63%) of revenue and was flat YoY at S\$365mn in 2H23, as the growth in Equities – Derivatives revenue pulled up the decline in the Equities – Cash business.

- Data, Connectivity and Indices (DCI) business growth flat. DCI revenue accounted for 12% (2H22: 13%) of total revenue and was flat YoY at S\$75mn in 2H23. Market data and indices revenue dipped 4% YoY, mainly due to lower revenue from the index business. Nonetheless, this was offset by an increase of 5% YoY in connectivity revenue mainly due to the upselling of connectivity services to existing clients and the introduction of new GIFT Connect-related co-location and network services.

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.

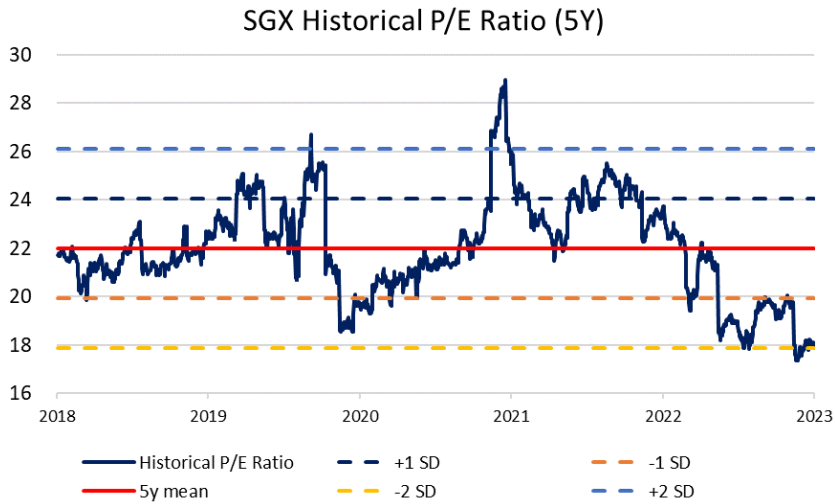
Investing for the medium term. SGX has guided for a FY24 expenses growth of mid-single digit from FY23 as they expect FY24 expenses to grow at a slower pace as compared to FY22 and FY23. The higher expenses are mainly from the buildout of their OTC FX business and higher staff costs from salary increments. With that, SGX expects medium-term expense guidance to remain at mid-single digit growth. CAPEX is expected to be higher in FY24 (S\$75-80mn) as S\$8mn of CAPEX planned in FY23 was deferred to FY24; the planned CAPEX is to support the growth of their OTC FX business, enhance system architecture and consolidate office spaces.

Rising interest rates. Apart from the banks, SGX is another beneficiary of higher interest rates, and treasury income is expected to continue growing with rising interest rates. As at FY23, SGX reported an average S\$12.6bn float from collateral and S\$137mn of interest income, which represents 20% of FY23 profit before tax. In comparison with the previous record high treasury income in FY20, SGX reported interest income of S\$135mn and earned a yield of 101bps (FY23: 109bps) on collateral balances when the Fed fund rate peaked at 2.50%. We believe there is a huge upside in their treasury income with the potential to further increase with the current high interest rate environment.

Investment Actions

Maintain a BUY with an unchanged target price of S\$11.71. Our target price is pegged to +1SD of its 5-year mean or 20x P/E (Figure 1). Catalysts include continued growth from derivatives volumes and fees, and higher treasury income as the higher interest rates start to kick in.

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



Source: Bloomberg, PSR

Financials

Income Statement

| Y/E Jun, SGD mn | FY21 | FY22 | FY23 | FY24e | FY25e |
|--|------------|------------|------------|------------|------------|
| Operating revenue | 1,056 | 1,099 | 1,194 | 1,319 | 1,343 |
| Operating expenses | (431) | (465) | (507) | (562) | (573) |
| EBITDA | 625 | 634 | 688 | 756 | 770 |
| Depreciation & amortisation | (95) | (97) | (98) | (111) | (111) |
| Operating profit | 531 | 537 | 590 | 645 | 659 |
| Other gains/(losses) | 10 | 18 | 100 | 76 | 96 |
| Associates & JVs | (4) | (11) | (16) | (13) | (16) |
| Profit before tax | 536 | 545 | 674 | 708 | 738 |
| Tax | (91) | (93) | (103) | (111) | (116) |
| Net profit after tax | 446 | 452 | 571 | 597 | 622 |
| Profit attributable to shareholders | 446 | 451 | 571 | 611 | 636 |

Per share data (SGD Cents)

| Y/E Jun | FY21 | FY22 | FY23 | FY24e | FY25e |
|---------------|------|------|------|-------|-------|
| EPS, reported | 42 | 42 | 53 | 57 | 61 |
| DPS | 32 | 32 | 33 | 34 | 34 |
| BVPS | 117 | 130 | 145 | 159 | 179 |
| Payout ratio | 77% | 76% | 61% | 59% | 56% |

Cash Flow

| Y/E Jun, SGD mn | FY21 | FY22 | FY23 | FY24e | FY25e |
|--|--------------|--------------|--------------|--------------|--------------|
| CFO | | | | | |
| Profit before tax and Assoc.&JV | 541 | 555 | 689 | 735 | 768 |
| Depreciation & Amortisation | 95 | 97 | 98 | 111 | 111 |
| WC changes | 35 | 60 | (138) | 39 | (107) |
| Others | 17 | 20 | 8 | 17 | 17 |
| Cash generated from ops | 687 | 732 | 657 | 901 | 789 |
| Tax paid | (109) | (99) | (99) | (112) | (117) |
| Cashflow from ops | 577 | 633 | 559 | 789 | 672 |
| CFI | | | | | |
| CAPEX, net | (45) | (44) | (54) | (74) | (80) |
| Others | (46) | (17) | (8) | 0 | 0 |
| Cashflow from investments | (91) | (61) | (62) | (74) | (80) |
| CFE | | | | | |
| Loans, net of repayments | 184 | 0 | 0 | 0 | 0 |
| Dividends | (342) | (342) | (344) | (363) | (363) |
| Others | (438) | (101) | (89) | 0 | 0 |
| Cashflow from financing | (596) | (443) | (433) | (363) | (363) |
| Net change in cash | (110) | 128 | 63 | 352 | 229 |
| CCE, end | 833 | 752 | 777 | 874 | 1076 |

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

| Y/E Jun, SGD mn | FY21 | FY22 | FY23 | FY24e | FY25e |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| ASSETS | | | | | |
| PPE | 50 | 34 | 41 | 41 | 41 |
| Software | 166 | 166 | 152 | 184 | 224 |
| Intangible assets | 122 | 118 | 92 | 92 | 92 |
| Goodwill | 541 | 708 | 703 | 703 | 703 |
| Others | 293 | 669 | 614 | 614 | 614 |
| Total non-current assets | 1,173 | 1,695 | 1,602 | 1,635 | 1,674 |
| Accounts receivables | 749 | 1,061 | 1,111 | 1,016 | 1,030 |
| Cash | 1,000 | 938 | 993 | 1,090 | 1,342 |
| Securities clearing funds | 60 | 60 | 40 | 40 | 40 |
| Others | 41 | 94 | 35 | 35 | 35 |
| Total current assets | 1,850 | 2,153 | 2,179 | 2,181 | 2,447 |
| Total Assets | 3,023 | 3,848 | 3,781 | 3,815 | 4,121 |

LIABILITIES

| | | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Accounts payables | 868 | 1,262 | 1,137 | 1,092 | 1,004 |
| Short term loans | 0 | 0 | 0 | 0 | 0 |
| Others | 138 | 180 | 502 | 502 | 502 |
| Total current liabilities | 1,006 | 1,442 | 1,638 | 1,594 | 1,505 |
| Lease liabilities | 51 | 31 | 15 | 15 | 15 |
| Long term loans | - | - | - | - | - |
| Others | 576 | 826 | 425 | 425 | 425 |
| Total non-current liabilities | 627 | 857 | 439 | 439 | 439 |
| Total Liabilities | 1,633 | 2,299 | 2,078 | 2,033 | 1,945 |

EQUITY

| | | | | | |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Non-controlling interests | 5 | 5 | 3 | 3 | 3 |
| Shareholder Equity | 1,390 | 1,549 | 1,704 | 1,908 | 2,137 |

Valuation Ratios

| Y/E Jun | FY21 | FY22 | FY23 | FY24e | FY25e |
|---------------------|------|------|------|-------|-------|
| P/E (X), adj. | 22.9 | 22.6 | 17.9 | 16.7 | 15.6 |
| P/B (X) | 8.2 | 7.4 | 6.6 | 6.0 | 5.3 |
| EV/EBITDA (X), adj. | 16.3 | 13.8 | 12.7 | 11.6 | 11.3 |
| Dividend Yield | 3.4% | 3.4% | 3.4% | 3.6% | 3.6% |

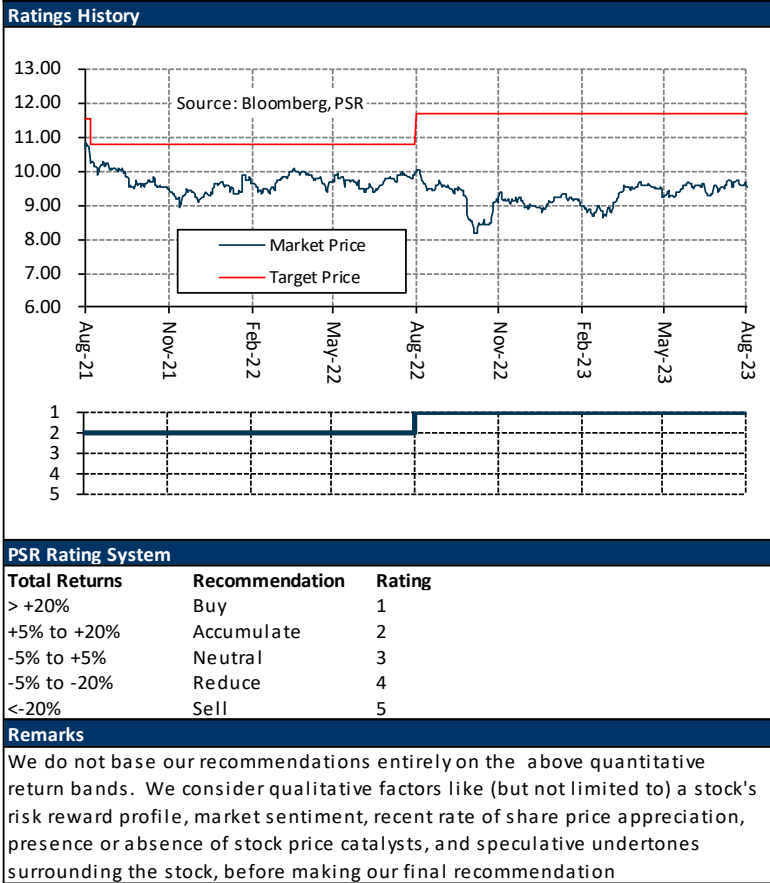
Growth & Margins

| | | | | | |
|-------------------|-------|-------|-------|-------|-------|
| Growth | | | | | |
| Revenue | 0.3% | 4.1% | 8.7% | 10.4% | 1.8% |
| EBITDA | -4.6% | 1.4% | 8.5% | 10.0% | 1.8% |
| EBIT | -6.2% | 1.3% | 9.7% | 9.4% | 2.1% |
| Net profit, adj. | -5.6% | 1.3% | 26.5% | 7.0% | 4.1% |
| Margins | | | | | |
| EBITDA margin | 62.3% | 59.2% | 57.7% | 57.6% | 57.4% |
| EBIT margin | 50.3% | 48.9% | 49.4% | 48.9% | 49.1% |
| Net profit margin | 42.2% | 41.1% | 47.8% | 46.3% | 47.3% |

Key Ratios

| | | | | | |
|-----|-------|-------|-------|-------|-------|
| ROE | 33.8% | 30.7% | 35.1% | 33.8% | 31.4% |
| ROA | 15.6% | 13.1% | 15.0% | 16.1% | 16.0% |

| | | | | | |
|-----------------|----------|----------|----------|----------|----------|
| Net Gearing (X) | Net Cash | Net Cash | Net Cash | Net Cash | Net Cash |
|-----------------|----------|----------|----------|----------|----------|



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