



Singapore Exchange Limited

FICC revenue support growth



SINGAPORE | FINANCE | 1H24 RESULTS

- 1HFY24 revenue of S\$592mn was slightly below our estimates, at 45% of FY24e, while adjusted PATMI of S\$251mn was below our estimates, at 42% of FY24e. The variance came from higher-than-expected FICC revenue offset by lower Equities – Cash and Equities – Derivatives revenue. 1HFY24 DPS increased by 6% to 17 cents (1HFY23: 16 cents).
- Treasury income surged 47% YoY to S\$67mn for 1H24, mainly due to higher average yields on margin deposits, partially offset by a decrease in margin balances.
- FICC grew 28% YoY, led by continued growth in commodity and currency derivatives volumes, higher OTC FX revenue, and higher treasury income. Equities revenue fell due to a decline in trading and clearing, and listing revenue, offset slightly by higher treasury income.
- We downgrade to ACCUMULATE with a lower target price of S\$10.53** (prev. S\$11.71). We lower FY24e earnings by 3% as we lower Equities – Cash and Derivatives revenue estimates and lower total OPEX estimates for FY24e. Our target price is pegged to -1SD of its 5-year mean or 19.4x P/E (Figure 1). Catalysts include continued growth from OTC FX business pillars, and continued high treasury income due to the higher-for-longer interest rates.

Results at a glance

(SGD mn)	1H24	1H23	YoY	Comments
Fixed Income, Currencies & Commodities (FICC)	151.9	118.5	28%	From 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	159.6	169.1	-6%	Lower listing and trading and clearing revenue, coupled with lower daily average traded value and lower overall average clearing fees.
Equities - Derivatives	160.7	172.6	-7%	Decline in trading and clearing revenue was offset slightly by surge in treasury income.
Platform and Others	120.1	111.2	8%	Broad based growth in market data revenue, connectivity revenue and indices and other revenue.
Total Revenue	592.3	571.4	4%	
OPEX	(247.6)	(237.4)	4%	Increase mainly from higher staff costs and technology costs, offset by lower royalties and professional fees.
Operating profit	296.1	284.1	4%	
Net profit	281.6	284.6	-1%	
Normalised net profit	251.4	236.8	6%	

Source: Company, PSR

The Positives

+ Treasury income continues to climb. 1H24 total treasury income on collateral balances held in trust surged 47% YoY to S\$67mn from 1H23's treasury income of S\$47mn. The increase was mainly due to higher average yields on margin deposits, partially offset by a decrease in margin balances. However, this was lower than the record high of S\$90mn reached in 2H23. Notably, 1H24's treasury income contributed 20% to PBT, similar to the contribution in full-year FY23.

+ FICC – Currency and commodities surges. FICC - Currency and commodities trading and clearing revenue surged 30% YoY to S\$148mn in 1H24, as volumes increased in commodity and currency derivatives, primarily from iron ore futures (up 49% YoY in 1H24) and USD/CNH FX

5 February 2024

ACCUMULATE (Downgraded)

LAST DONE PRICE	SGD 9.58
FORECAST DIV	SGD 0.34
TARGET PRICE	SGD 10.53
TOTAL RETURN	13.4%

COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN)	1070
MARKET CAP (USD mn / SGD mn)	7677 / 10253
52 - WK HI/LO (SGD)	9.98 / 8.6
3M Average Daily T/O (mn)	163

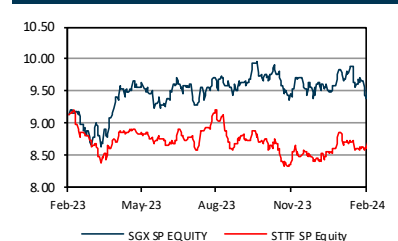
MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.4%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(4.5)	(0.8)	6.4
STTF RETURN	(2.8)	2.5	(2.3)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E June	FY22	FY23	FY24e	FY25e
Revenue (SGD mn)	1,099	1,194	1,233	1,258
EBITDA (SGD mn)	634	688	707	709
NPAT (SGD mn)	452	571	581	596
EPS (Cents)	42.2	53.4	54.4	58.0
PER, (X)	22.7	17.9	17.6	16.5
P/BV, (X)	7.4	6.6	6.0	5.5
DPS (Cents)	32.0	32.5	34.0	34.0
Div Yield	3.3%	3.4%	3.5%	3.5%
ROE	30.7%	35.1%	32.6%	30.4%

Source: Bloomberg, Company, PSR

Valuation Method

P/E Multiple @ 19.4x

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futures; as well as higher contribution from OTC FX. SGX's OTC FX business average daily volume spiked 46% YoY to US\$100.1bn, on target to reach SGX's FY25 target of US\$100bn, and contributed S\$40.9mn, or 7%, to 1H24 revenue. The increase was primarily due to higher volumes in currency swaps from clients managing interest rate risks.

+ Platform and Others revenue rose 8% YoY. Platform and Others revenue accounted for 20.3% (1H23: 19.5%) of total revenue and grew 8% YoY to S\$120mn in 1H24. Market data revenue rose 10% YoY, driven by higher revenue realised from Securities and Derivatives Market Direct Feed subscribers, as well as growth in distribution of Commodities data, while connectivity revenue grew 9% YoY, mainly due to higher revenue from co-location subscribers. Indices and other revenue increased 7% YoY mainly from higher revenue contribution from Energy Market Company and Indices.

The Negatives

- Listing revenue continues decline. FICC - Fixed Income revenue fell 8% YoY in 1H24, dragged down by lower listing revenue. There were 489 bond listings raising S\$132bn in 1H24 (2H22: 449 bond listings raised S\$104bn). On Cash equities, revenue was 6% lower YoY in 1H24 mainly due to listing revenue declining 3% YoY and trading and clearing revenue falling 14% YoY as daily average traded value, total traded value, and overall average clearing fees fell. Overall, equities revenue accounted for 54% (1H23: 60%) of revenue and fell 6% YoY to S\$320mn in 1H24.

- Derivatives volume and fees dip. Total equity derivatives volumes dipped 14% YoY in 1H24, as volumes of GIFT Nifty and FTSE China A50 index futures contracts declined. The average fee per contract for Equity, Currency, and Commodity derivatives was lower at \$1.54 in 1H24 (1H23: \$1.58) mainly driven by a decline in the average fee of Nifty 50 index futures, due to the reclassification of National Stock Exchange of India fee arrangement from expense to revenue as part of GIFT Connect. Nonetheless, on a pro forma basis, the 1H24 average fee per contract rose slightly to \$1.54 (1H23: \$1.53).

Outlook

OTC FX business main growth contributor. SGX's OTC FX business, comprising BidFX, MaxxTrader, and Electronic Communication Network (ECN), has continued its strong growth with the full-year FY25 average daily volume target of US\$100bn well within reach (1H24: S\$100.1bn). SGX's OTC FX business is well-positioned for growth. With a focus on digitalization and risk management services, it aims to capitalize on emerging market (EM) opportunities. As more participants engage in EM currency transactions, SGX's platform stands to benefit from this trend.

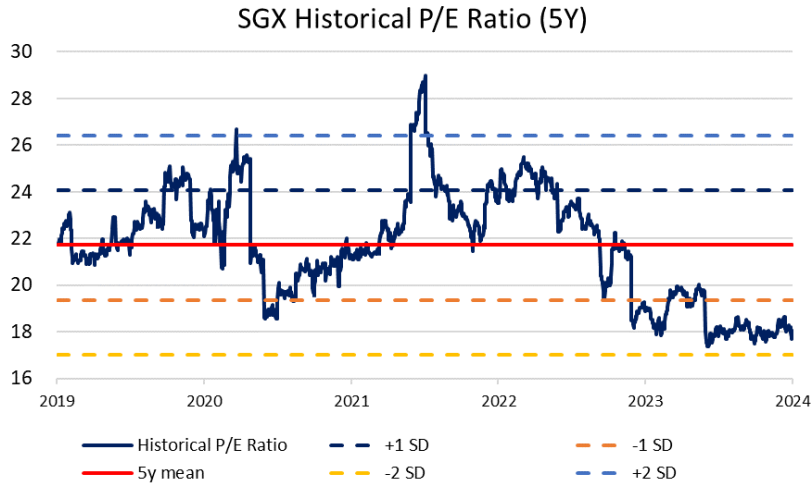
Cautious for the near term. SGX is cautious on the near-term outlook as global growth prospects appear muted due to rising geopolitical tensions and economic divergence. As such, SGX has guided FY24 expense growth to be similar to the 3% YoY expense growth in 1H24, lower than the previous guidance of mid-single digit. The higher expenses are mainly from the buildout of their OTC FX business and higher staff costs from salary increments. CAPEX is expected to be within S\$70mn-75mn, lower than the previous guidance of S\$75mn-80mn.

Higher-for-longer rates. Apart from the banks, SGX is another beneficiary of higher interest rates, and treasury income is expected to remain high with higher-for-longer 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

Downgrade to ACCUMULATE with a lower target price of S\$10.53. We lower FY24e earnings by 3% as we lower Equities – Cash and Derivatives revenue estimates and lower total OPEX estimates for FY24e. Our target price is pegged to -1SD of its 5-year mean or 19.4x P/E (Figure 1). Catalysts include continued growth from OTC FX business pillars, and continued high treasury income due to the higher-for-longer interest rates.

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	1,233	1,258
Operating expenses	(431)	(465)	(507)	(527)	(548)
EBITDA	625	634	688	707	709
Depreciation & amortisation	(95)	(97)	(98)	(97)	(97)
Operating profit	531	537	590	610	612
Other gains/(losses)	10	18	100	97	110
Associates & JVs	(4)	(11)	(16)	(15)	(17)
Profit before tax	536	545	674	692	705
Tax	(91)	(93)	(103)	(111)	(109)
Net profit after tax	446	452	571	581	596
Profit attributable to shareholders	446	451	571	581	596

Per share data (SGD Cents)

Y/E Jun	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	42	42	53	54	58
DPS	32	32	33	34	34
BVPS	117	130	145	159	175
Payout ratio	77%	76%	61%	63%	59%

Cash Flow

Y/E Jun, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax and Assoc.&JV	541	555	689	707	722
Depreciation & Amortisation	95	97	98	111	111
WC changes	35	60	(138)	60	(109)
Others	17	20	8	17	17
Cash generated from ops	687	732	657	894	742
Tax paid	(109)	(99)	(99)	(104)	(107)
Cashflow from ops	577	633	559	791	634
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	354	191
CCE, end	833	752	777	875	1058

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	950	968
Cash	1,000	938	993	1,091	1,312
Securities clearing funds	60	60	40	40	40
Others	41	94	35	35	35
Total current assets	1,850	2,153	2,179	2,116	2,355
Total Assets	3,023	3,848	3,781	3,750	4,029

LIABILITIES

Accounts payables	868	1,262	1,137	1,047	961
Short term loans	0	0	0	0	0
Others	138	180	502	502	502
Total current liabilities	1,006	1,442	1,638	1,549	1,463
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	1,988	1,902

EQUITY

Non-controlling interests	5	5	3	3	3
Shareholder Equity	1,390	1,549	1,704	1,867	2,049

Valuation Ratios

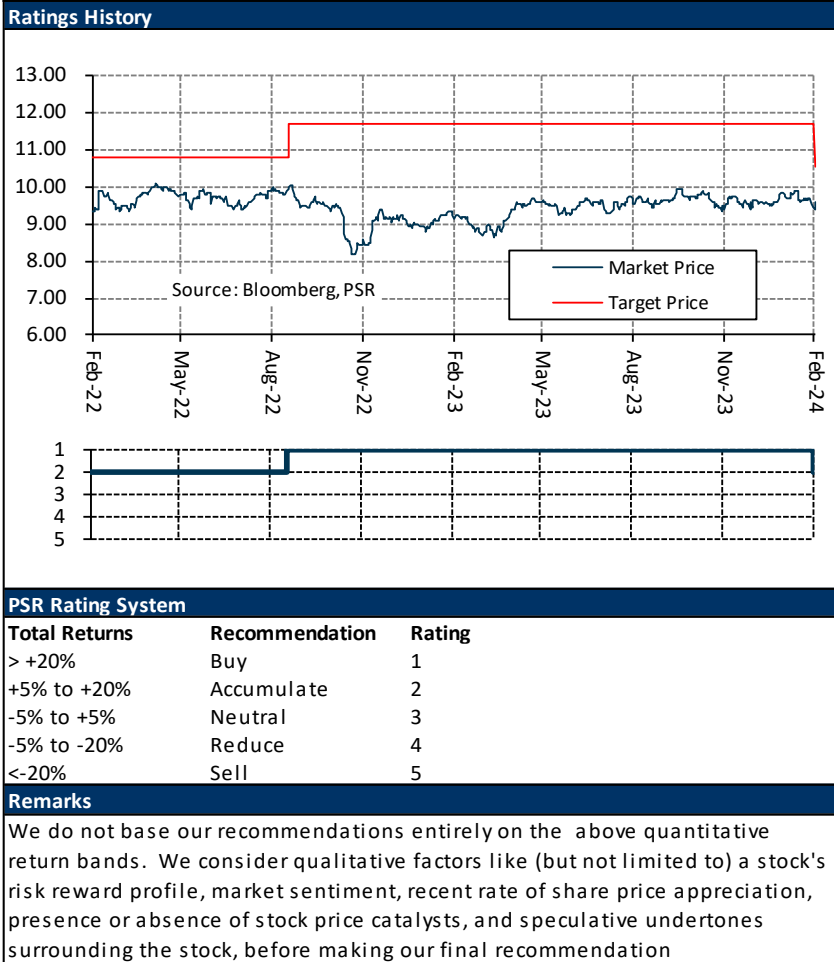
Y/E Jun	FY21	FY22	FY23	FY24e	FY25e
P/E (X), adj.	23.0	22.7	17.9	17.6	16.5
P/B (X)	8.2	7.4	6.6	6.0	5.5
EV/EBITDA (X), adj.	16.4	13.8	12.7	12.4	12.3
Dividend Yield	3.3%	3.3%	3.4%	3.5%	3.5%

Growth & Margins

Growth					
Revenue	0.3%	4.1%	8.7%	3.3%	2.0%
EBITDA	-4.6%	1.4%	8.5%	2.7%	0.4%
EBIT	-6.2%	1.3%	9.7%	3.4%	0.4%
Net profit, adj.	-5.6%	1.3%	26.5%	1.8%	2.5%
Margins					
EBITDA margin	62.3%	59.2%	57.7%	57.6%	57.3%
EBIT margin	50.3%	48.9%	49.4%	49.4%	48.7%
Net profit margin	42.2%	41.1%	47.8%	47.1%	47.4%

Key Ratios

ROE	33.8%	30.7%	35.1%	32.6%	30.4%
ROA	15.6%	13.1%	15.0%	15.4%	15.3%
Net Gearing (X)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash



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