



# Singapore Exchange Limited

## Treasury income drops sharply

### SINGAPORE | FINANCE | 2H24 RESULTS

- 2HFY24 revenue of S\$639mn met our estimates while adjusted PATMI of S\$275mn was below our estimates, with full-year FY24 revenue and adjusted PATMI at 99%/90% of FY24e. The variance came from higher-than-expected FICC revenue offset by lower Equities – Derivatives revenue. 2HFY24 DPS increased by 6% YoY to 17.5 cents (2HFY23: 16.5 cents), full-year FY24 DPS at 34.5 cents (FY23: 32.5 cents).
- Treasury income fell 24% YoY to S\$68mn in 2H24 from 2H23's record level of S\$90mn, mainly due to lower average yields on margin deposits and a decrease in margin balances.
- FICC grew 18% YoY, led by continued growth in commodity and currency derivatives volumes, higher OTC FX revenue, and a recovery in listing revenue. Equities revenue fell from a decline in equity derivatives volumes and fees, offset slightly by higher cash equities trading and clearing revenue.
- We maintain ACCUMULATE with a higher target price of S\$10.78** (prev. S\$10.53). We increase FY25e earnings by 4% as we increase FICC – Currency and Commodities and Market Data and Connectivity revenue estimates. Our target price is pegged to -1SD of its 5-year mean or 18.6x P/E FY25e (Figure 1). We expect SGX to maintain stable growth from currency derivatives volumes and its OTC FX business pillars as they acquire new clients across Europe and Asia Pacific while keeping expense growth contained. However, it will face headwinds to treasury income from the expected rate cuts in 2H24 and continued decline in equity derivatives volumes.

#### Results at a glance

(SGD mn)	2H24	2H23	YoY	Comments
Fixed Income, Currencies & Commodities (FICC)	170.6	145.1	18%	Continued growth in commodity and currency derivatives volumes, higher OTC FX revenue, and recovery in listing revenue.
Equities - Cash	175.3	172.9	1%	Higher trading and clearing revenue was offset by lower listing revenue, securities settlement and depository management.
Equities - Derivatives	173.4	188.7	-8%	Continued decline in equity derivatives volumes and fees, coupled with lower treasury income.
Platform and Others	120.1	116.3	3%	Broad based growth in market data revenue and connectivity revenue.
<b>Total Revenue</b>	<b>639.4</b>	<b>623.0</b>	<b>3%</b>	
OPEX	(281.8)	(269.2)	5%	Led by higher staff costs and onetime provision to fund initiatives to improve vibrancy of the Securities Market.
<b>Operating profit</b>	<b>310.2</b>	<b>305.5</b>	<b>2%</b>	
<b>Net profit</b>	<b>316.3</b>	<b>286.3</b>	<b>10%</b>	
<b>Normalised net profit</b>	<b>274.5</b>	<b>266.4</b>	<b>3%</b>	

Source: Company, PSR

#### The Positives

**+ FICC – Currency and Commodities continues growth.** Currency and commodities trading and clearing revenue was the main contributor to growth, surging by 32% in 2H24 led by an increase in commodity derivatives volumes (+52% YoY) from higher volumes in iron ore derivatives and an increase in currency derivatives volumes (+45% YoY) from higher volumes in USD/CNH FX futures contracts. SGX's OTC FX showed steady growth, with revenue rising 30% YoY to S\$51mn in 2H24, is mainly due to higher volumes in currency swaps from clients

12 August 2024

### ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 9.82
FORECAST DIV	SGD 0.35
TARGET PRICE	SGD 10.78
<b>TOTAL RETURN</b>	<b>13.3%</b>

#### COMPANY DATA

BLOOMBERG TICKER	SGX SP
O/S SHARES (MN) :	1069
MARKET CAP (USD mn / SGD mn) :	7928 / 10494
52 - WK HI/LO (SGD) :	9.98 / 8.87
3M Average Daily T/O (mn) :	185

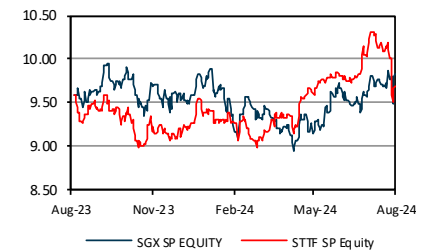
#### MAJOR SHAREHOLDERS (%)

SEL Holdings Pte Ltd	23.4%
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#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	2.6	7.4	4.8
STTF RETURN	(3.4)	1.0	3.1

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E June	FY23	FY24	FY25e	FY26e
Revenue (SGD mn)	1,194	1,232	1,286	1,325
EBITDA (SGD mn)	688	702	736	752
NPAT (SGD mn)	571	598	619	639
EPS (Cents)	53.4	55.9	57.9	59.8
PER, (X)	18.4	17.6	17.0	16.4
P/BV, (X)	6.8	6.2	5.4	5.0
DPS (Cents)	32.5	34.5	36.0	38.0
Div Yield	3.3%	3.5%	3.7%	3.9%
ROE	35.1%	32.6%	30.4%	29.3%

Source: Bloomberg, Company, PSR

#### Valuation Method

P/E Multiple @ 18.6x

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managing interest rate risks. Full-year FY24 OTC FX headline average daily volume (ADV) grew 47% YoY to US\$111bn, reaching SGX's FY25 target of US\$100bn early. However, SGX did not provide any new guidance for ADV targets and mentioned that the aim would be to maintain the current levels.

**+ High-single digit growth in market data and connectivity revenue.** Market data revenue rose 8% YoY in 2H24, driven by repricing and an increase in number of data licence subscribers, while connectivity revenue grew 9% YoY, mainly due to repricing and higher number of subscriptions of SGX's co-location services. Overall, platform and others revenue accounted for 18.8% (2H23: 18.7%) of total revenue and grew 3% YoY in 2H24. The growth in the market data and connectivity segments were partially offset by a dip in indices and other revenue (-2% YoY) from a decline in revenue from Scientific Beta.

### The Negatives

**- Treasury income starts to decline.** 2H24 total treasury income on collateral balances held in trust fell 24% YoY to S\$68mn from 2H23's record level of S\$90mn. The increase was mainly due to lower average yields on margin deposits, in addition to a decrease in margin balances. Full-year FY24 margin deposits fell 12% YoY to S\$12.3bn. 2H24's treasury income contributed 18% to PBT, falling below the contribution of 20% in full-year FY23.

**- Derivatives volume and fees continues falling.** Total equity derivatives volumes dipped 1% YoY in 2H24, as volumes of the two largest contributors, GIFT Nifty and FTSE China A50 index, declined by 3% YoY. The average fee per contract for Equity, Currency, and Commodity derivatives was 6% lower at \$1.54 in 2H24 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 2H24 average fee per contract declined at a lower rate of 3%.

### 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 achieved early (FY24: US\$111.1bn, FY23: US\$76bn). 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 near-term as global growth appear muted due to rising geopolitical tensions and economic divergence. As such, SGX has guided FY25e expense growth of 2-4%, and in the low to mid-single digit in the medium term. 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 S\$70mn-75mn (FY24: S\$66mn), with expectations to further increase in the medium term due to the need to modernise technology.

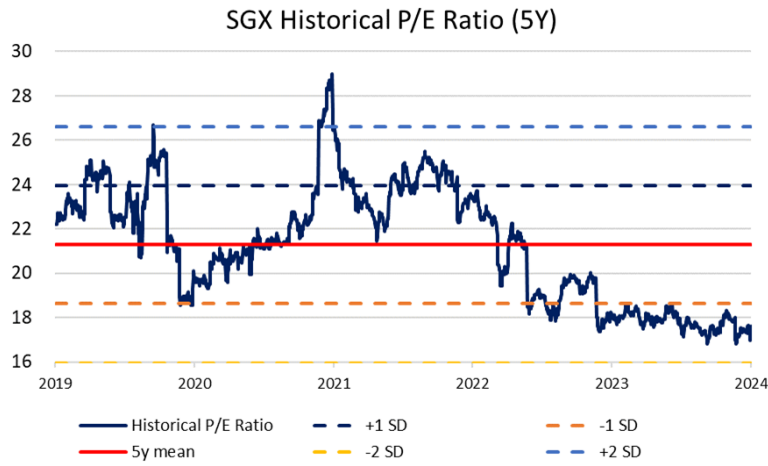
**Interest rates now a headwind.** Apart from the banks, SGX would be affected by the interest rate cycle, and treasury income is expected to dip with expected interest rate cuts in 2H24. As at FY24, SGX reported an average S\$13.1bn float from collateral (FY23: S\$12.6bn) and S\$135mn of interest income (FY23: S\$137mn), which represents 19% of FY24 profit before tax (FY23: 20%). While treasury income remains relatively stable, the yield has shown a more significant decline to 103bps (FY23: 109bps) as interest rates on fixed deposits and treasuries start to drop globally. We believe SGX will face headwinds as treasury income has started to decline even though rate cuts have yet to materialise, and we could see a steeper drop when the rate cuts start to come in the later part of 2024.

### Investment Actions

**Maintain ACCUMULATE with a higher target price of S\$10.78** (prev. S\$10.53). We increase FY25e earnings by 4% as we increase FICC – Currency and Commodities and Market Data and Connectivity revenue estimates. Our target price is pegged to -1SD of its 5-year mean or 18.6x P/E (Figure 1). We expect SGX to maintain stable growth from their OTC FX business pillars and

currency derivatives volumes while keeping expense growth contained. However, it will face headwinds to treasury income from the expected rate cuts in 2H24 and continued decline in equity derivatives volumes.

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



Source: Bloomberg, PSR

## Financials

### Income Statement

Y/E Jun, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Operating revenue	1,099	1,194	1,232	1,286	1,325
Operating expenses	(465)	(507)	(529)	(550)	(573)
<b>EBITDA</b>	<b>634</b>	<b>688</b>	<b>702</b>	<b>736</b>	<b>752</b>
Depreciation & amortisation	(97)	(98)	(96)	(96)	(96)
<b>Operating profit</b>	<b>537</b>	<b>590</b>	<b>606</b>	<b>640</b>	<b>656</b>
Other gains/(losses)	18	100	117	107	114
Associates & JVs	(11)	(16)	(14)	(14)	(14)
<b>Profit before tax</b>	<b>545</b>	<b>674</b>	<b>709</b>	<b>733</b>	<b>755</b>
Tax	(93)	(103)	(111)	(114)	(117)
<b>Net profit after tax</b>	<b>452</b>	<b>571</b>	<b>598</b>	<b>619</b>	<b>639</b>
<b>Profit attributable to shareholders</b>	<b>451</b>	<b>571</b>	<b>598</b>	<b>619</b>	<b>639</b>

### Per share data (SGD Cents)

Y/E Jun	FY22	FY23	FY24	FY25e	FY26e
EPS, reported	42	53	56	58	60
DPS	32	33	35	36	38
BVPS	130	145	159	183	197
Payout ratio	76%	61%	62%	62%	64%

### Cash Flow

Y/E Jun, SGD mn	FY22	FY23	FY24	FY25e	FY26e
<b>CFO</b>					
<b>Profit before tax and Assoc.&amp;JV</b>	<b>555</b>	<b>689</b>	<b>723</b>	<b>747</b>	<b>770</b>
Depreciation & Amortisation	97	98	96	132	132
WC changes	16	(162)	1	143	34
Others	15	(80)	(92)	19	0
Cash generated from ops	683	546	728	1041	936
Tax paid	(99)	(99)	(112)	(109)	(112)
<b>Cashflow from ops</b>	<b>584</b>	<b>447</b>	<b>616</b>	<b>932</b>	<b>824</b>
<b>CFI</b>					
CAPEX, net	(44)	(54)	(65)	(70)	(100)
Others	(506)	67	(73)	0	0
<b>Cashflow from investments</b>	<b>(550)</b>	<b>12</b>	<b>(138)</b>	<b>(70)</b>	<b>(100)</b>
<b>CFE</b>					
Loans, net of repayments	0	0	0	0	0
Dividends	(342)	(344)	(365)	(572)	(594)
Others	234	(89)	(95)	0	(69)
<b>Cashflow from financing</b>	<b>(109)</b>	<b>(433)</b>	<b>(460)</b>	<b>(572)</b>	<b>(663)</b>
<b>Net change in cash</b>	<b>(75)</b>	<b>26</b>	<b>18</b>	<b>290</b>	<b>61</b>
<b>CCE, end</b>	<b>752</b>	<b>777</b>	<b>796</b>	<b>911</b>	<b>952</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Jun, SGD mn	FY22	FY23	FY24	FY25e	FY26e
<b>ASSETS</b>					
PPE	34	41	55	60	60
Software	166	152	135	164	199
Intangible assets	118	92	69	69	69
Goodwill	708	703	700	700	700
Others	669	614	779	824	824
<b>Total non-current assets</b>	<b>1,695</b>	<b>1,602</b>	<b>1,738</b>	<b>1,817</b>	<b>1,852</b>
Accounts receivables	1,061	1,111	1,113	1,177	1,198
Cash	938	993	958	1,074	1,115
Securities clearing funds	60	40	40	40	40
Others	94	35	136	136	136
<b>Total current assets</b>	<b>2,153</b>	<b>2,179</b>	<b>2,247</b>	<b>2,427</b>	<b>2,489</b>
<b>Total Assets</b>	<b>3,848</b>	<b>3,781</b>	<b>3,985</b>	<b>4,244</b>	<b>4,341</b>

### LIABILITIES

Accounts payables	1,262	1,137	1,078	1,190	1,144
Short term loans	0	0	0	0	0
Others	180	502	160	160	160
<b>Total current liabilities</b>	<b>1,442</b>	<b>1,638</b>	<b>1,238</b>	<b>1,351</b>	<b>1,305</b>
Lease liabilities	31	15	65	65	65
Long term loans	-	-	-	-	-
Others	826	425	720	720	720
<b>Total non-current liabilities</b>	<b>857</b>	<b>439</b>	<b>785</b>	<b>785</b>	<b>785</b>
<b>Total Liabilities</b>	<b>2,299</b>	<b>2,078</b>	<b>2,024</b>	<b>2,136</b>	<b>2,090</b>

### EQUITY

Non-controlling interests	5	3	1	1	1
<b>Shareholder Equity</b>	<b>1,549</b>	<b>1,704</b>	<b>1,961</b>	<b>2,108</b>	<b>2,251</b>

### Valuation Ratios

Y/E Jun	FY22	FY23	FY24	FY25e	FY26e
P/E (X), adj.	23.3	18.4	17.6	17.0	16.4
P/B (X)	7.6	6.8	6.2	5.4	5.0
EV/EBITDA (X), adj.	13.8	12.7	12.4	11.9	11.6
Dividend Yield	3.3%	3.3%	3.5%	3.7%	3.9%

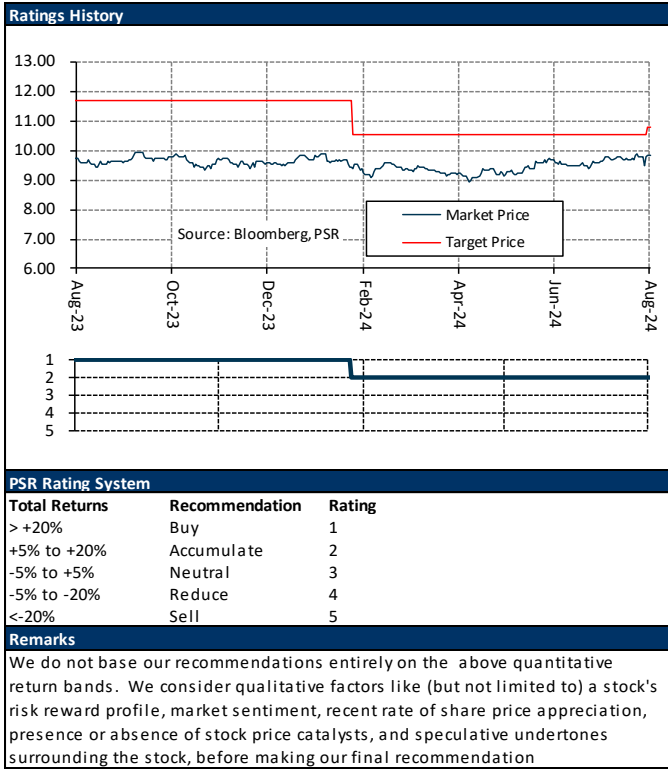
### Growth & Margins

<b>Growth</b>					
Revenue	4.1%	8.7%	3.1%	4.4%	3.0%
EBITDA	1.4%	8.5%	2.1%	4.8%	2.1%
EBIT	1.3%	9.7%	2.9%	5.6%	2.4%
Net profit, adj.	1.3%	26.5%	4.7%	3.6%	3.2%
<b>Margins</b>					
EBITDA margin	57.7%	57.6%	57.0%	57.2%	56.7%
EBIT margin	48.9%	49.4%	49.2%	49.8%	49.5%
Net profit margin	41.1%	47.8%	48.5%	48.2%	48.3%

### Key Ratios

ROE	30.7%	35.1%	32.6%	30.4%	29.3%
ROA	13.1%	15.0%	15.4%	15.0%	14.9%

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