

**SGX (SGX SP)**

Financial Services - Exchanges

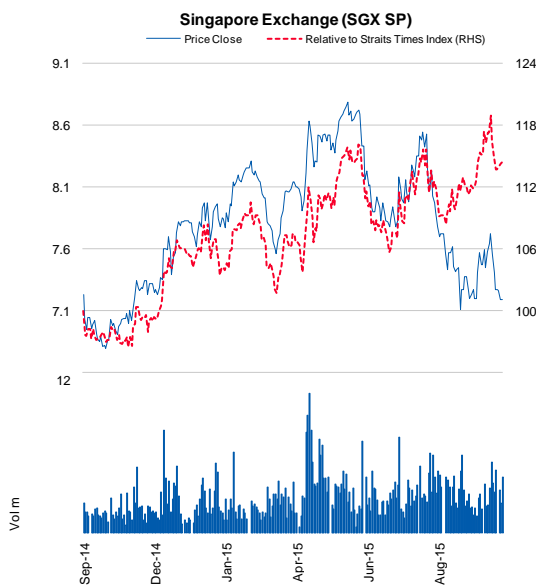
Market Cap: USD5,390m

**Buy** (from Neutral)

 Target Price: **SGD8.13**

 Price: **SGD7.19**

## Timely To Relook At This Monopoly With Net Cash

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (SGD/USD)	24.1m/17.4m
Cons. Upside (%)	12.4
Upside (%)	13.1
52-wk Price low/high (SGD)	6.80 - 8.78
Free float (%)	71
Share outstanding (m)	1,072
<b>Shareholders (%)</b>	
SEL Holdings	23.4
Tokyo Stock Exchange	5.0

**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	(7.9)	(2.6)	(7.6)	(10.8)	(1.1)
Relative	9.3	3.1	7.4	8.4	14.2

We are upgrading SGX to BUY with a SGD8.13 TP (13% upside). The amount of SGD1.18bn in securities ADT in the past three months was in line with our SGD1.17bn FY16 assumption; August derivatives volume surged 80% YoY (-14% MoM), but share price has fallen by 7.6% over this timeframe. We believe the negatives have been largely factored in. Being a monopoly with a net cash position offers it resiliency.

- ◆ **Securities market's average daily turnover (ADT) remains respectable.** 1QFY16 (Jun) securities market ADT of SGD1.18bn was 8% higher than FY15's. We maintain our FY16 and FY17 securities market ADT assumption of SGD1.17bn and SGD1.27bn respectively.
- ◆ **August derivatives volumes doubled YoY.** The China A50 Index Futures average daily volume of 403,000 in August was 35% lower MoM, although it represents a sharp 124% YoY spike. Correspondingly, the August total average daily derivatives trading volume of 814,000 was down 14% MoM but up 80% YoY – this is higher than our 754,000 assumption for FY16. The recent softness of the Chinese equities markets has contributed to the China A50 Index Futures' trading volume weakness and this volatility could add to Singapore Exchange's (SGX) earnings fluctuations.
- ◆ **We roll forward our valuation to factor in FY17 earnings.** Setting a 23x target FY17F P/E (a slight discount to the 5-year average of 25x), we derive a SGD8.13 TP vs our previous SGD7.58 TP. This is pegged to 22x FY16F P/E. Using DCF as a corroborative valuation methodology, we derive a SGD8.20 fair value, which is close to our P/E-derived TP. We consider SGX is also attractive, given the company's forecasted dividend yield in excess of 4%.
- ◆ **Limited share price downside risk, but good upside potential.** If we assume unchanged securities ADT, but a P/E compression due to market conditions (setting a fair P/E at -2SD, we get a fair P/E of 20x, which would put SGX's share price at ~SGD7.00. Whilst the company traded around 14x P/E during the global financial crisis (2H08), we do not expect as severe a P/E compression this time around.

Forecasts and Valuations	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total turnover (SGDm)	715	687	779	847	885
Reported net profit (SGDm)	336	320	349	361	379
Recurring net profit (SGDm)	336	320	349	361	379
Recurring net profit growth (%)	15.1	(4.6)	8.8	3.6	4.8
Recurring EPS (SGD)	0.31	0.30	0.33	0.34	0.35
DPS (SGD)	0.28	0.28	0.28	0.30	0.32
Recurring P/E (x)	22.9	24.0	22.1	21.3	20.3
P/B (x)	8.65	8.34	7.89	7.61	7.34
P/CF (x)	18.3	21.4	17.9	17.5	20.8
Dividend Yield (%)	3.9	3.9	3.9	4.2	4.4
EV/EBITDA (x)	15.6	17.1	15.6	15.0	14.3
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				(3.1)	(8.0)

Source: Company data, RHB

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Figure 1: SGX's P&L breakdown with relevant assumptions

YE : Jun (SGDm)	FY13	FY14	FY15	FY16F	FY17F
Turnover	715.1	686.9	778.9	847.2	885.2
EBITDA	454.6	417.3	459.5	474.1	499.1
Depreciation	(40.4)	(45.6)	(57.3)	(53.0)	(54.0)
EBIT	415.5	371.7	402.2	421.1	445.1
Pre-tax Profit	408.0	379.0	411.5	431.6	456.2
Tax	(72.1)	(58.6)	(62.9)	(70.4)	(77.6)
Net Profit	335.9	320.4	348.6	361.2	378.7
Growth (%)					
Turnover	10.4	(4.0)	13.4	8.8	4.5
EBITDA	12.4	(8.2)	10.1	3.2	5.3
Pre-tax Profit	14.8	(7.1)	8.6	4.9	5.7
Net Profit	15.1	(4.6)	8.8	3.6	4.8
Profitability (%)					
EBITDA Margin	63.6	60.7	59.0	56.0	56.4
Pre-tax Margin	57.1	55.2	52.8	50.9	51.5
Net Margin	47.0	46.7	44.8	42.6	42.8
Future & option turnover (units)(m)	101.1	104.3	161.2	190.0	197.0
Stock-market turnover (incl structured warrants) (SGDbn)	376.0	286.3	274.3	295.0	320.0
ADT (incl structured warrants)(SGDbn)	1.50	1.14	1.09	1.17	1.27
Equities market velocity (%)	52%	39%	36%	38%	39%
Revenue breakdown (SGDm)					
- Securities	275.0	226.9	209.3	223.9	240.0
- Derivatives	201.9	208.7	295.7	346.3	357.7
- Market Data & Connectivity	73.3	76.6	81.2	84.0	87.0
- Depository Services	94.3	95.0	104.2	104.0	108.0
- Issuer Services	67.9	78.3	87.6	87.0	90.0
- Others	2.7	1.4	1.0	2.0	2.5
Total Operating Revenue	715.1	686.9	778.9	847.2	885.2

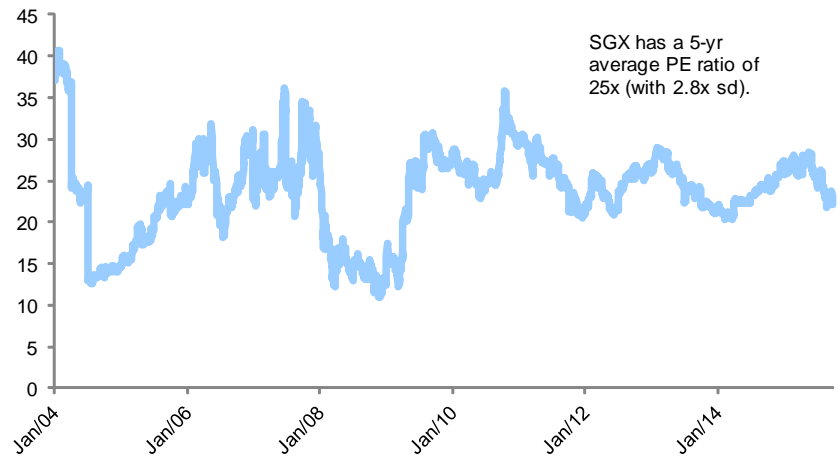
Source: RHB

Figure 2: SGX's TP sensitivity to securities market ADT assumptions

	FY17F					
	Base case	20	40	60	(20)	(40)
Stkmkt turnover % rise						
Securities ADT (SGDbn)	1.27	1.52	1.78	2.03	1.02	0.76
Revenue (SGDm)	885.2	937.7	990.2	1,042.7	832.7	780.1
Net profit (SGDm)	378.7	420.9	463.2	505.4	336.4	294.2
EPS (SGD)	35.3	39.3	43.2	47.2	31.4	27.5
Target PE x	23	23	23	23	23	23
Target Price (SGD)	8.13	9.03	9.94	10.85	7.22	6.31

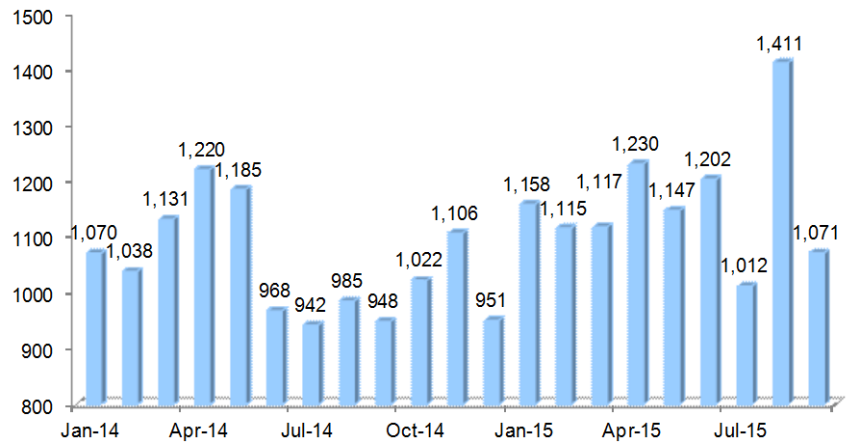
Source: RHB

**Figure 3: SGX's historical P/E ratios**



Source: RHB

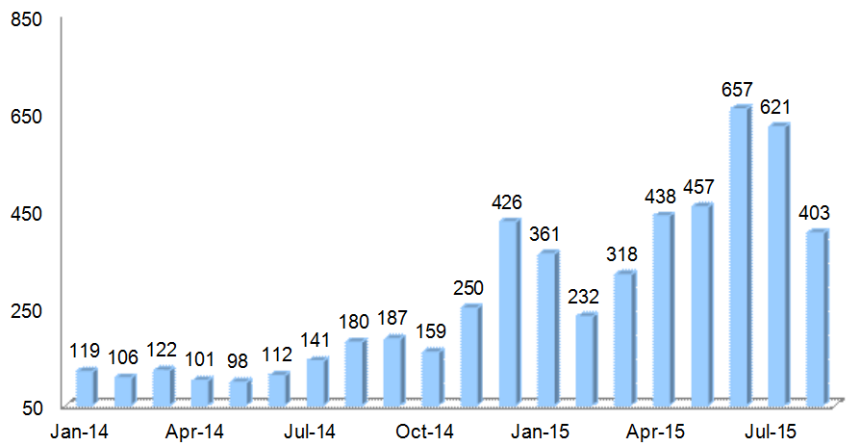
**Figure 4: SGX's monthly securities ADT (SGDm)**



Source: RHB

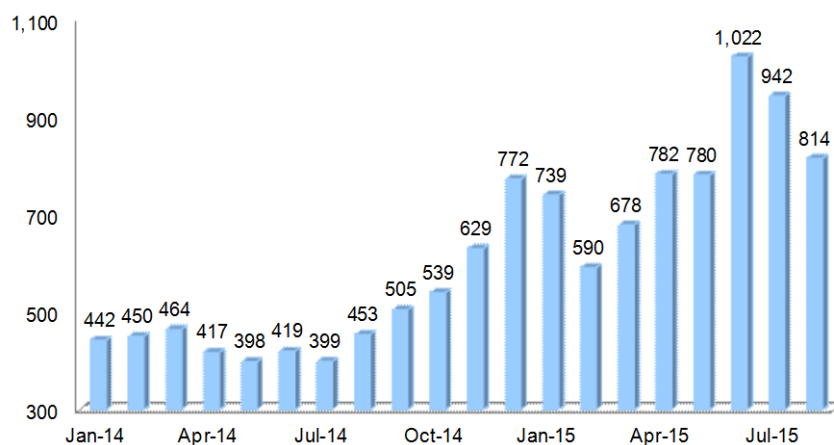
Note: Sep 2015 ADT based on data till 28 Sep

**Figure 5: FTSE China A50 Index Futures' average daily volume ('000)**



Source: RHB

**Figure 6: SGX's derivatives average daily trading volume ('000)**



Source: RHB

**Figure 7: SGX's DCF valuation parameters**

<b>Terminal Growth Rate</b>	<b>2.0%</b>
WACC	10.4%
- Cost of debt after tax	0.0%
- Cost of equity	10.4%
- Risk-free rate	3.2%
- Market risk premium	6.3%
- Beta	115.1%
Capital structure	
- Debt	0.0%
- Common Equity	100.0%

Source: RHB

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
Total turnover	715	687	779	847	885
<b>Gross profit</b>	<b>715</b>	<b>687</b>	<b>779</b>	<b>847</b>	<b>885</b>
Other operating costs	(305)	(320)	(384)	(434)	(448)
<b>Operating profit</b>	<b>410</b>	<b>367</b>	<b>395</b>	<b>413</b>	<b>437</b>
Operating EBITDA	451	412	452	466	491
Depreciation of fixed assets	(40)	(46)	(57)	(53)	(54)
<b>Operating EBIT</b>	<b>410</b>	<b>367</b>	<b>395</b>	<b>413</b>	<b>437</b>
Other recurring income	(7)	7	9	11	11
Interest income	5	5	7	8	8
<b>Pre-tax profit</b>	<b>408</b>	<b>379</b>	<b>412</b>	<b>432</b>	<b>456</b>
Taxation	(72)	(59)	(63)	(70)	(78)
<b>Profit after tax &amp; minorities</b>	<b>336</b>	<b>320</b>	<b>349</b>	<b>361</b>	<b>379</b>
<b>Reported net profit</b>	<b>336</b>	<b>320</b>	<b>349</b>	<b>361</b>	<b>379</b>
<b>Recurring net profit</b>	<b>336</b>	<b>320</b>	<b>349</b>	<b>361</b>	<b>379</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
<b>Operating profit</b>	<b>410</b>	<b>367</b>	<b>395</b>	<b>413</b>	<b>437</b>
<b>Depreciation &amp; amortisation</b>	<b>40</b>	<b>46</b>	<b>57</b>	<b>53</b>	<b>54</b>
<b>Change in working capital</b>	<b>11</b>	<b>16</b>	<b>8</b>	<b>31</b>	<b>(57)</b>
Other operating cash flow	9	5	32	13	14
<b>Operating cash flow</b>	<b>470</b>	<b>433</b>	<b>493</b>	<b>510</b>	<b>448</b>
Tax paid	(52)	(75)	(64)	(70)	(78)
<b>Cash flow from operations</b>	<b>419</b>	<b>359</b>	<b>429</b>	<b>440</b>	<b>371</b>
Capex	(28)	(72)	(82)	(64)	(74)
Other investing cash flow	(12)	7	(13)	8	8
<b>Cash flow from investing activities</b>	<b>(40)</b>	<b>(65)</b>	<b>(95)</b>	<b>(56)</b>	<b>(66)</b>
Dividends paid	(289)	(300)	(300)	(332)	(325)
Proceeds from issue of shares	-	-	(8)	-	-
Other financing cash flow	(25)	-	0	-	1
<b>Cash flow from financing activities</b>	<b>(314)</b>	<b>(300)</b>	<b>(308)</b>	<b>(332)</b>	<b>(324)</b>
Cash at beginning of period	548	613	607	633	684
<b>Total cash generated</b>	<b>65</b>	<b>(6)</b>	<b>26</b>	<b>51</b>	<b>(19)</b>
<b>Implied cash at end of period</b>	<b>613</b>	<b>607</b>	<b>633</b>	<b>684</b>	<b>665</b>

Source: Company data, RHB

## Financial Exhibits

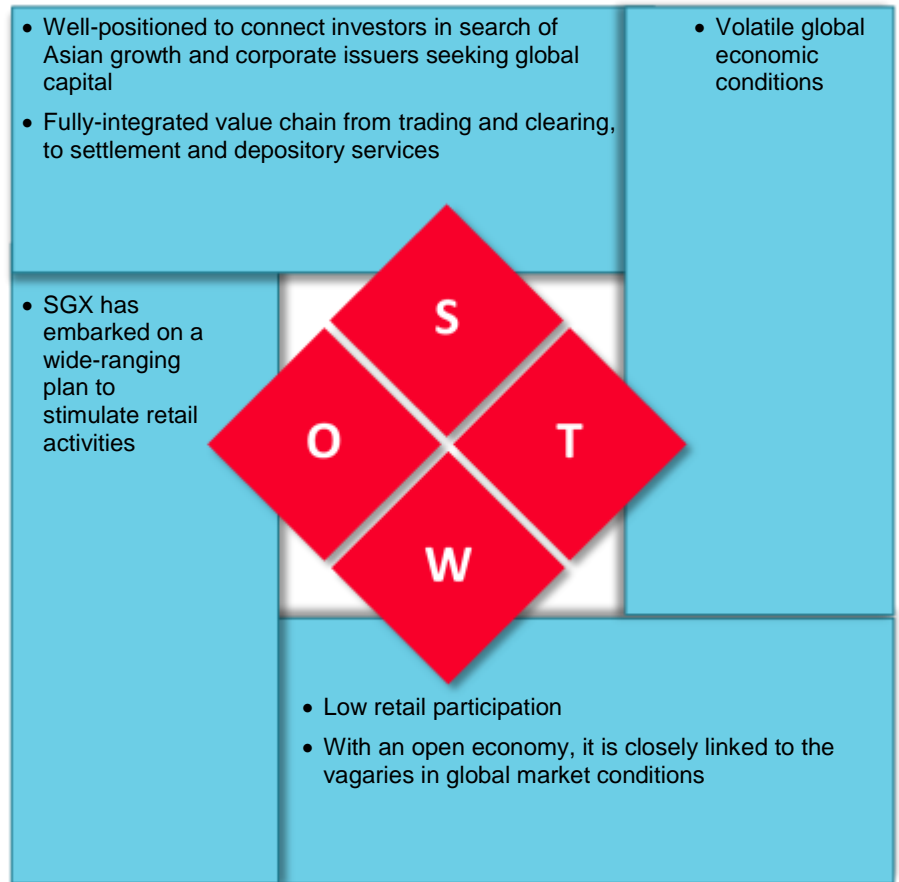
<b>Balance Sheet (SGDm)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
Total cash and equivalents	613	607	633	684	665
Accounts receivable	757	572	654	643	688
Other current assets	210	210	218	212	217
<b>Total current assets</b>	<b>1,580</b>	<b>1,389</b>	<b>1,504</b>	<b>1,539</b>	<b>1,569</b>
Total investments	27	27	9	29	31
Tangible fixed assets	136	173	201	212	232
Total other assets	51	51	87	59	62
Total non-current assets	215	252	298	300	325
<b>Total assets</b>	<b>1,794</b>	<b>1,641</b>	<b>1,802</b>	<b>1,839</b>	<b>1,895</b>
Accounts payable	783	616	718	738	726
Other current liabilities	100	83	86	67	97
<b>Total current liabilities</b>	<b>884</b>	<b>699</b>	<b>805</b>	<b>806</b>	<b>824</b>
Other liabilities	22	20	21	21	21
<b>Total non-current liabilities</b>	<b>22</b>	<b>20</b>	<b>21</b>	<b>21</b>	<b>21</b>
<b>Total liabilities</b>	<b>906</b>	<b>719</b>	<b>825</b>	<b>826</b>	<b>844</b>
Share capital	426	428	429	429	429
Other reserves	462	494	548	584	622
<b>Shareholders' equity</b>	<b>889</b>	<b>922</b>	<b>976</b>	<b>1,013</b>	<b>1,050</b>
<b>Total equity</b>	<b>889</b>	<b>922</b>	<b>976</b>	<b>1,013</b>	<b>1,050</b>
<b>Total liabilities &amp; equity</b>	<b>1,794</b>	<b>1,641</b>	<b>1,802</b>	<b>1,839</b>	<b>1,895</b>

Source: Company data, RHB

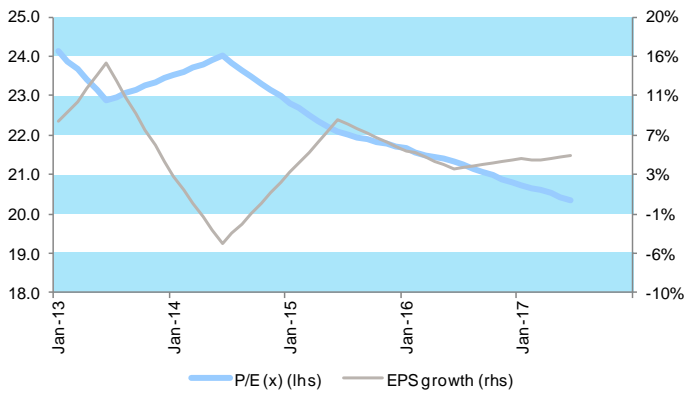
<b>Key Ratios (SGD)</b>	<b>Jun-13</b>	<b>Jun-14</b>	<b>Jun-15</b>	<b>Jun-16F</b>	<b>Jun-17F</b>
Revenue growth (%)	10.4	(4.0)	13.4	8.8	4.5
Operating profit growth (%)	14.3	(10.6)	7.7	4.7	5.7
Net profit growth (%)	15.1	(4.6)	8.8	3.6	4.8
EPS growth (%)	15.0	(4.7)	8.8	3.4	4.8
BVPS growth (%)	6.6	3.7	5.7	3.7	3.7
Operating margin (%)	57.4	53.4	50.7	48.8	49.4
Net profit margin (%)	47.0	46.7	44.8	42.6	42.8
Net debt to equity (%)	(69.0)	(65.8)	(64.8)	(67.5)	(63.3)
DPS	0.28	0.28	0.28	0.30	0.32
Recurrent cash flow per share	0.39	0.34	0.40	0.41	0.35

Source: Company data, RHB

## SWOT Analysis

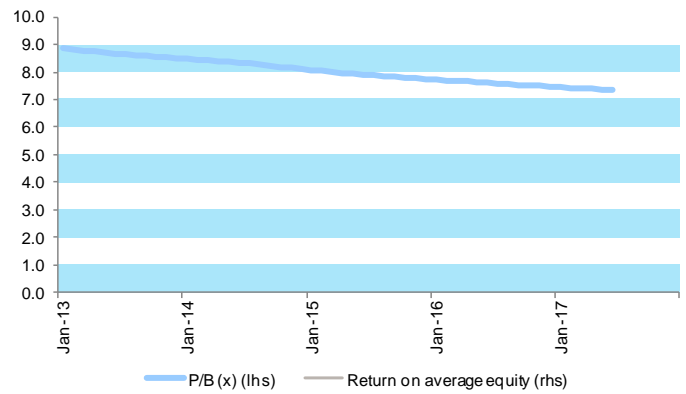


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

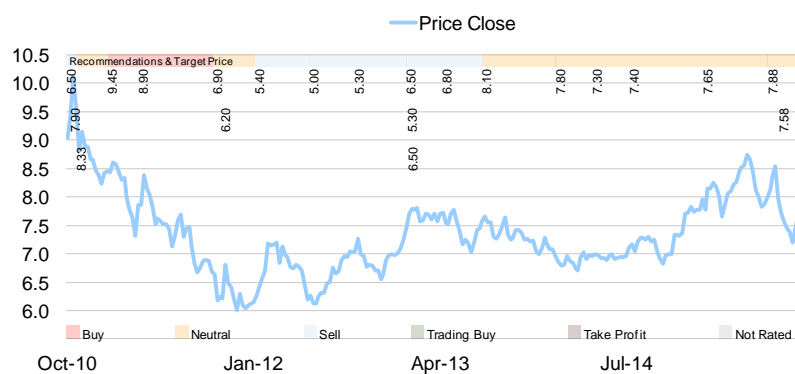


Source: Company data, RHB

## Company Profile

Singapore Exchange (SGX) operates the securities and derivatives exchange in Singapore and their related clearing houses.

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-29	Neutral	7.58	8.23
2015-07-02	Neutral	7.88	8.08
2015-04-22	Neutral	7.65	8.52
2015-01-22	Neutral	7.65	7.94
2014-10-22	Neutral	7.40	6.86
2014-08-01	Neutral	7.40	7.17
2014-07-24	Neutral	7.40	7.09
2014-04-24	Neutral	7.30	6.96
2014-02-10	Neutral	7.80	6.72
2014-01-23	Neutral	7.80	6.98

Source: RHB, Bloomberg



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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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