

SGX (SGX SP)

Financial Services - Exchanges

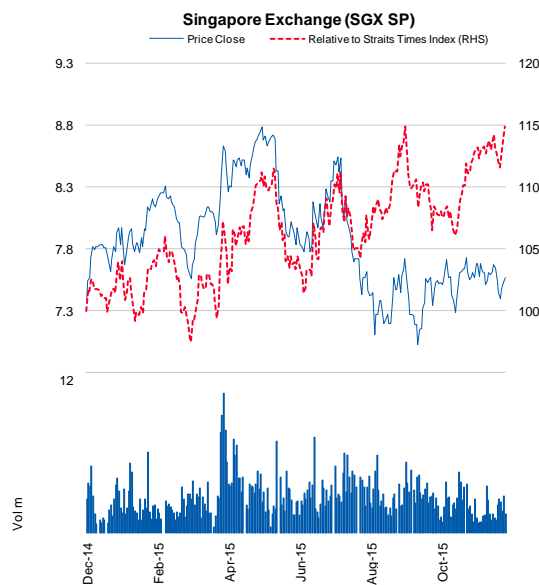
Market Cap: USD5,769m

Buy (Maintained)

 Target Price: **SGD8.13**

 Price: **SGD7.57**

Some Recovery In Derivatives Volume

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	18.1m/12.9m
Cons. Upside (%)	6.2
Upside (%)	7.4
52-wk Price low/high (SGD)	7.03 - 8.78
Free float (%)	71
Share outstanding (m)	1,072
Shareholders (%)	
SEL Holdings	23.3

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.1)	0.3	1.6	(4.5)	(0.1)
Relative	13.2	4.1	2.5	10.8	14.4

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We maintain BUY on SGX with an unchanged SGD8.13 TP (7% upside), and a 4% yield. We noticed a MoM recovery in derivatives average daily contracts for Nov 2015; the derivatives revenue share is a significant 41%. The recent average daily value for securities is unexciting, but in line with our FY16 assumption of SGD1.17bn. Our TP, which is pegged to a 23x FY17 P/E, is at a discount to the historical average of 25x and hence conservative. SGX is a monopoly in a net cash position.

- ◆ **Recovery in derivatives volume.** From a peak of 1,022k derivatives average daily contracts in Jun 2015, volume fell to a low of 594k in Oct; we recently learned of a recovery in Nov to 675k contracts; as a result, for the first 5 months of FY16, the average was 747k contracts. A key component of derivatives volume is the China A50 Index Futures (50% share); the volatility in the Chinese equities market could lead to increased volumes traded in the futures index. We see this as a key catalyst to boost SGX's earnings.
- ◆ **Securities market turnover was unexciting.** For the period of 1st Oct 2015 until 11th Dec 2015, the Securities Average Daily Value (SADV) was SGD965m, lower than 1QFY16's of SGD1.19bn. We are assuming FY16 SADV of SGD1.17bn, on the back of slightly stronger volumes as we go into early 2016. The recent mainboard listing of BHG Retail REIT, which brought the total number of REITs and property trusts listed on SGX to 39, is a positive for SGX.
- ◆ **Both P/E and DCF methodology yield a similar TP.** We peg our TP to a target 23x FY17 P/E (lower than the 5-year average of 25x), which results in a TP of SGD8.13; we corroborate this result through DCF. We consider an investment in SGX is attractive, considering also a potential dividend yield of 4%.
- ◆ **Limited share price downside.** In a worst case scenario we assume an unchanged SADV, with a P/E compression due to market conditions; thus assuming a P/E multiple at -2SD, or 20x, results in a SGD7.00 TP.

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)	24.1	25.3	23.2	22.5	21.4
P/B (x)	9.11	8.78	8.31	8.01	7.72
P/CF (x)	19.3	22.6	18.9	18.4	21.9
Dividend Yield (%)	3.7	3.7	3.7	4.0	4.2
EV/EBITDA (x)	16.5	18.1	16.5	15.9	15.1
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				0.3	(3.5)

Source: Company data, RHB

Figure 1: P&L with 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
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
Derivatives daily avg volume (k)	404	414	642	754	782
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: SGX data & RHB

Figure 2: Earnings sensitivity to stock market turnover

	FY17F					
Stkmkt turnover % rise	Base case	20	40	60	(20)	(40)
Securities ADV (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 rating	23	23	23	23	23	23
Target Price (SGD)	8.13	9.03	9.94	10.85	7.22	6.31

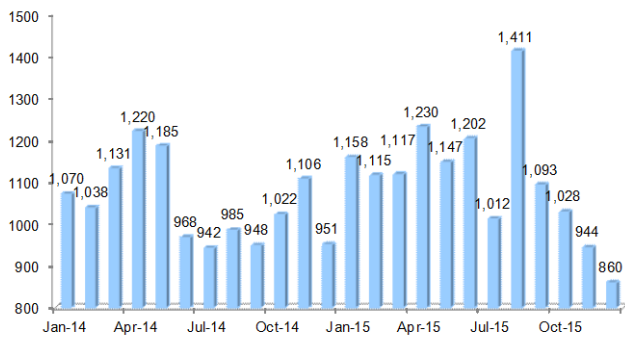
Source: RHB

Figure 3: SGX's DCF valuation parameters

Terminal Growth Rate	2.0%
WACC	8.5%
- Cost of debt after tax	0.0%
- Cost of equity	8.5%
- Risk-free rate	2.6%
- Market risk premium	6.2%
- Beta	96.2%
Capital structure	
- Debt	0.0%
- Common Equity	100.0%

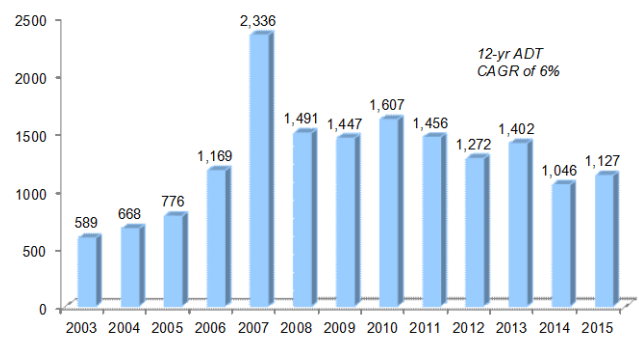
Source: RHB

Figure 4: SGX Monthly SADV (SGDm)



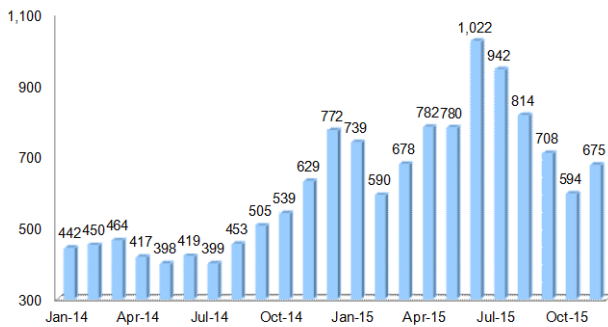
Source: Bloomberg data
Dec-15 data is from 1Dec until 11Dec

Figure 5: SGX Yearly SADV (SGDm)



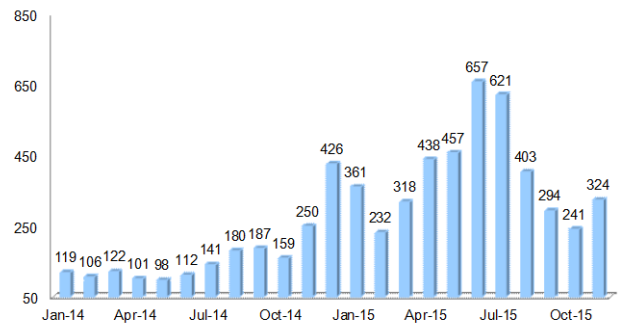
Source: Bloomberg data
2015 data is from 1Jan until 11Dec

Figure 6: SGX Derivatives Avg Daily Trading Volume (k)



Source: SGX data

Figure 7: FTSE China A50 Index Futures Avg Daily Volume (k)



Source: SGX data

Financial Exhibits

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

Source: Company data, RHB

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

Source: Company data, RHB

Financial Exhibits

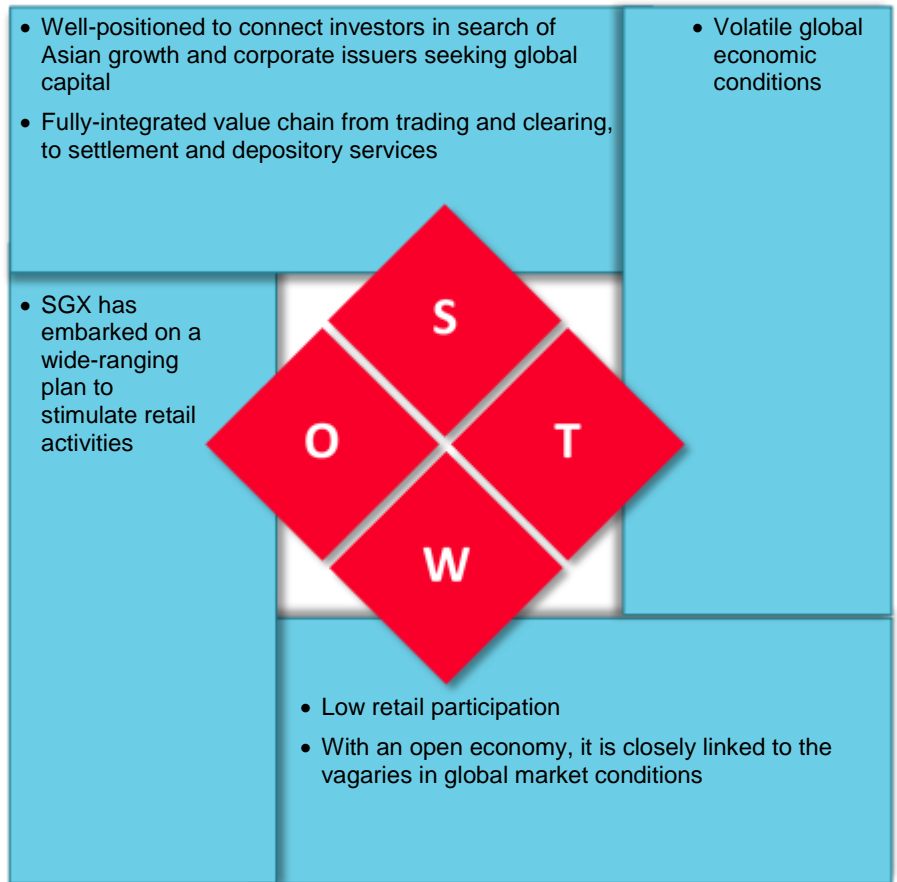
Balance Sheet (SGDm)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total cash and equivalents	613	607	633	684	665
Accounts receivable	757	572	654	643	688
Other current assets	210	210	218	212	217
Total current assets	1,580	1,389	1,504	1,539	1,569
Total investments	27	27	9	29	31
Tangible fixed assets	136	173	201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

Source: Company data, RHB

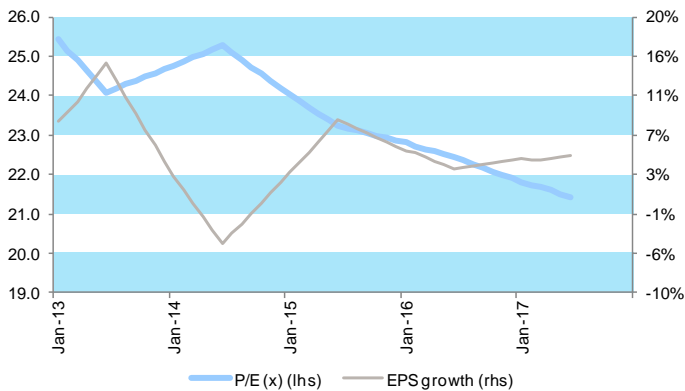
Key Ratios (SGD)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Revenue growth (%)	10.4	(4.0)	13.4	8.8	4.5
Operating profit growth (%)	14.3	(10.6)	7.7	4.7	5.7
Net profit growth (%)	15.1	(4.6)	8.8	3.6	4.8
EPS growth (%)	15.0	(4.7)	8.8	3.4	4.8
BVPS growth (%)	6.6	3.7	5.7	3.7	3.7
Operating margin (%)	57.4	53.4	50.7	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

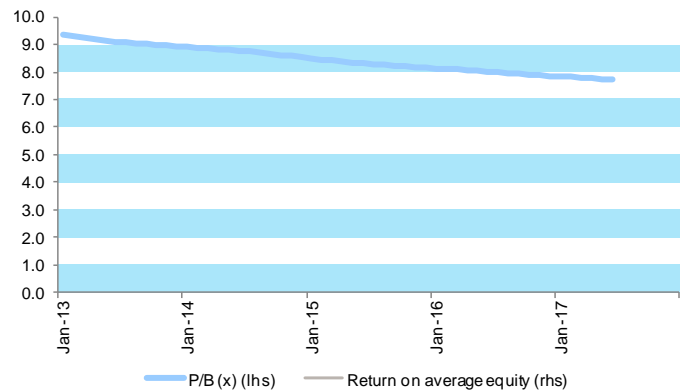


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

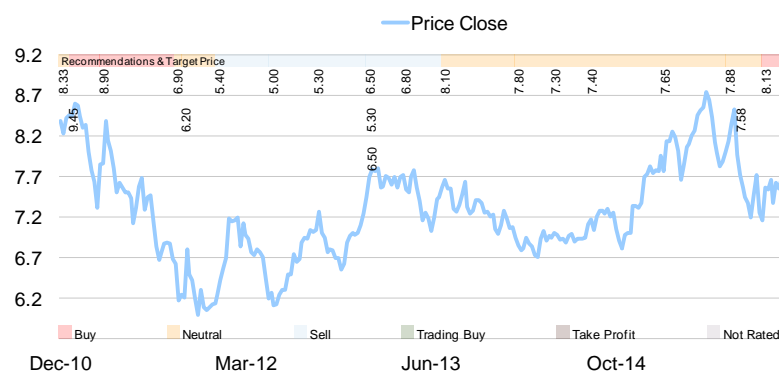


Source: Company data, RHB

Company Profile

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

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-10-22	Buy	8.13	7.55
2015-09-30	Buy	8.13	7.03
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

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

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

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a) -

RHB and/or its subsidiaries have not participated as a syndicate member in share offerings and/or bond issues in securities covered in this report in the last 12 months except for:

a) -

RHB has not provided investment banking services to the company/companies covered in this report in the last 12 months except for:

a) -

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2. Affiliation between parties to the employees, Directors or Commissioners of the parties concerned;
3. Affiliation between 2 companies whereby one or more member of the Board of Directors or the Commissioners are the same;
4. Affiliation between the Company and the parties, both directly or indirectly, controlling or being controlled by the Company;
5. Affiliation between 2 companies which are controlled, directly or indirectly, by the same party; or
6. Affiliation between the Company and the main Shareholders.

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- b. a substantial shareholder of an Issuer or Public Company;
- c. an individual, who because of his position or profession, or because of a business relationship with an Issuer or Public Company, has access to inside information; and
- d. an individual who within the last six months was a Person defined in letters a, b or c, above.

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- (a) -

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- (a) -

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- (a) -

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