

Singapore Company Focus

Singapore Exchange

Bloomberg: SGX SP | Reuters: SGXL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

22 Oct 2015

HOLD

Last Traded Price: S\$7.51 (STI : 3,025.70)

Price Target : S\$7.80 (4% upside)

Reason for Report : 1Q16 results

Potential Catalyst: Improvement in market activities

Where we differ: Less bullish on the securities market

Analyst

Sue Lin Lim +65 6682 3711 suelinlim@dbs.com

LING Lee Keng +65 6682 3703 leekeng@dbs.com

Result Summary

FY Jun (\$ m)	1Q 2016	1Q 2015	4Q 2015	yoy % chg	qoq % chg
P&L Items					
Securities Revenue	55.9	49.1	55.7	13.8	0.5
Derivatives Revenue	90.9	53.7	85.8	69.1	5.9
Other Revenue	72.8	66.0	74.1	10.3	(1.8)
Total Revenue	219.6	168.9	215.6	30.1	1.9
Operating exp.	102.3	81.9	104.9	24.9	(2.5)
Pre-tax profit	119.4	88.9	112.4	34.2	6.2
Net profit	99.3	77.6	96.2	28.0	3.2
Daily average					
Securities volume (bn)	1.72	1.79	1.89	(4.0)	(8.9)
Securities value (\$bn)	1.28	0.97	1.20	31.8	6.4
Velocity (%)	46%	32%	39%		
Derivatives vol (m)	0.826	0.450	0.863	83.4	(4.3)
Open interest (m)	3.30	3.07	3.26	7.4	1.2

Financial Summary

FY Jun (\$ m)	2014A	2015A	2016F	2017F
Turnover	687	779	848	902
Operating Profit	372	402	442	458
EBITDA	419	456	508	524
Net Pft (Pre Ex.)	320	349	372	386
EPS (S cts)	29.8	32.5	34.7	36.0
EPS Pre Ex. (S cts)	29.8	32.5	34.7	36.0
EPS Gth (%)	(5)	9	7	4
EPS Gth Pre Ex (%)	(9)	9	7	4
Net DPS (S cts)	26.9	29.2	31.2	32.4
BV Per Share (S cts)	85.9	90.9	96.4	101.1
PE (X)	25.2	23.1	21.7	20.9
PE Pre Ex. (X)	25.2	23.1	21.7	20.9
EV/EBITDA (X)	17.4	16.0	14.3	13.7
Net Div Yield (%)	3.6	3.9	4.2	4.3
P/Book Value (X)	8.7	8.3	7.8	7.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	35.4	36.7	37.0	36.4

At A Glance

Issued Capital (m shrs)	1,072
Mkt. Cap (\$m/US\$m)	8,048 / 5,771
3m Avg. Daily Val (US\$m)	17.4

ICB Industry : Financials

ICB Sector: General Financial

Principal Business: Singapore Exchange Limited owns and operates Singapore's Securities and Derivatives Exchange and their related clearing houses. The Company also provides ancillary securities processing and information technology services to participants in the financial sector.

Source: Company, DBS Bank, Bloomberg Finance L.P.

Volatility-led improvement

- **1Q16 net profit of S\$99m (+28% y-o-y); revenue +30% to S\$220m, in line. 5-Sct DPS declared**
- **Securities up; continued growth from Derivatives**
- **Challenging outlook for Securities; diversifying business mix to reduce reliance on Derivatives**
- **Maintain HOLD, TP S\$7.80**

Highlights

Improved securities revenues; continued derivatives growth

- SGX reported 1Q16 net profit of S\$99m (+28% y-o-y) while revenue gained 30% y-o-y to S\$220m, in line with our forecasts, on the back of the increased activities from the recent volatility in global markets. A 5-Sct base DPS was declared, up from 4 Scts previously, with dividend payout policy of at least 80%.
- Securities revenue increased 14% y-o-y to S\$55.9m and accounted for 25% of total revenue, compared to 29% in 1Q15. Securities daily average traded value (SDAV) increased 27% to S\$1.23 bn as the SDAV of ST Index stocks increased 61%, partly from improved retail participation after board lot size was reduced. Q-o-q, there was little change in securities revenues.
- Derivatives revenue increased 69% to S\$90.9m, and now accounts for 41% (32% in 1Q15) of total revenue. The strong growth was driven primarily by the SGX FTSE China A50 Index futures, and also Nikkei 225 Index and CNX India Nifty Index futures. On a quarterly basis, derivatives volumes were a tad lower and there was a corresponding decline in royalties.
- Within "Other revenues", issuer services was the only segment that registered a decline in revenue, -6% y-o-y to S\$21m, on the back of few new listings of shares and bonds.

Outlook

Unveiling new priorities

- Under the helm of its new CEO, Mr Loh Boon Chye, three key priorities were highlighted. No timeline was given as these priorities are earmarked to drive SGX's business over the longer term.

(1) Increasing liquidity of securities market

- SGX has implemented several initiatives to boost liquidity of the securities market, including Market Maker and Liquidity Provider (MM/LP) programmes. MM/LP participants now account for about 18% of traded value, compared with 12% in 1Q15. The reduction in board lot size has also led

Singapore Exchange

to an increase in retail participation in the overall market as well as the STI stocks. Based on the past nine months, there was an 11% increase in overall retail SDAV and a 24% increase in retail SDAV in STI stocks.

(2) Diversifying business mix

- To reduce its reliance of the Derivatives segment, SGX will
 - Grow the market for currency futures;
 - Develop into a regional fixed income platform, with the launch of its bond trading platform – SGX Bond Pro – in the coming months;
 - Grow its market data and index businesses. SGX recently launched SGX Index Edge, a service that creates and offers comprehensive index services tailored for Asian market participants.

(3) Maintaining cost discipline

- Operating costs and capex will closely track revenues generated. No change in FY16 guidance for operating expenses at S\$425-435m while technology-related capex is guided at S\$75-80m.

Challenging outlook for Securities market

- The uncertain and volatile outlook for the global economy will continue to pose challenges for the Securities market. The December quarter is typically a slow and quiet quarter and hence the next quarter's revenues and earnings could see a decline.

Post-trade system completion could open up to additional product lines.

- Once the post-trade system is completed (expected to be in 2016), SGX will be able to offer Single Stock Options to retail participants. This should add new revenue lines to the exchange.

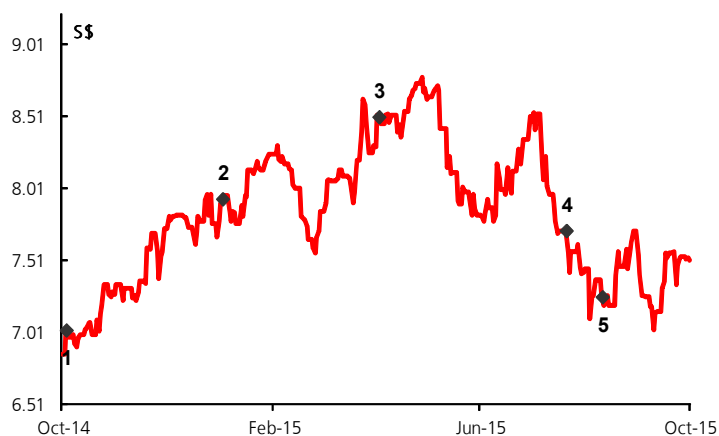
Valuation:

We have a HOLD recommendation with a S\$7.80 target price based on the dividend discount model which implies 23x FY16F EPS. In terms of PE, SGX is trading at comparable PE relative to peers like Bursa Malaysia. SGX is cheaper than HKEX but its growth pales in comparison. Downside to the stock price should be limited, supported by a dividend yield of about 4% based on 86-89% dividend payout assumption.

Key Risks:

Market activity. Slower-than-expected market activity will derail revenue generation. Derivatives, a growing revenue generator, could be at risk if products do not generate sufficient trading volumes.

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	23 Oct 14	7.03	6.95	HOLD
2:	22 Jan 15	7.94	7.30	HOLD
3:	23 Apr 15	8.51	7.80	HOLD
4:	10 Aug 15	7.72	7.80	HOLD
5:	31 Aug 15	7.26	7.80	HOLD

Source: AllianceDBS

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). This report is solely intended for the clients of DBS Bank Ltd and DBS Vickers Securities (Singapore) Pte Ltd, its respective connected and associated corporations and affiliates (collectively, the "DBS Vickers Group") only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of ADBSR.

The research set out in this report is based on information obtained from sources believed to be reliable and ADBSR, its holding company AIBB, their respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "Alliance Bank Group") do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The Alliance Bank Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The Alliance Bank Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The Alliance Bank Group may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other banking services for these companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the Alliance Bank Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months.

ANALYST CERTIFICATION

The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of the date the report is published, the analyst and his/her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES


1. DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates have a proprietary position in the Singapore Exchange recommended in this report as of 30 Sep 2015
2. DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may beneficially own a total of 1% of any class of common equity securities of the company mentioned as of 30 Sep 2015.

3. Compensation for investment banking services:

DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may have received compensation, within the past 12 months, and within the next 3 months may receive or intends to seek compensation for investment banking services from the company mentioned.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), both of which are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Securities Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
Dubai	This research report is being distributed in The Dubai International Financial Centre ("DIFC") by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United States	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations. It is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

AllianceDBS Research Sdn Bhd (128540 U)
19th Floor, Menara Multi-Purpose, Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com