

COMPANY RESULTS

Singapore Exchange (SGX SP)

FY22: Robust Results Backed By Elevated Volatility

SGX reported higher FY22 revenue (+4.1% yoy) and net profit (+1.4% yoy), backed by elevated trading volatility in 2HFY22. Excluding the cash equities segment, SGX's underlying businesses posted positive revenue growths in FY22. With higher interest rates, we expect SGX's margins to expand in FY23 as treasury income starts to recover. However, rising cost pressures may start to weigh on margins. Maintain BUY with a lower target price of S\$10.85.

FY22 RESULTS

Year to 30 Jun (\$m)	FY22	FY21	yoy% Chg	2HFY22	yoy% Chg	hoh% Chg
Turnover	1,099.0	1,055.9	4.1	577.4	7.9	10.7
Fixed Income, Currencies, Commodities	252.7	211.8	19.4	138.8	23.3	21.8
Cash Equities	388.4	412.7	(5.9)	197.7	(6.6)	3.7
Equities Derivatives	310.4	288.4	7.6	166.6	20.2	15.9
Data, Connectivity and Indices	147.4	143.1	3.0	74.3	2.7	1.6
Operating Profit	537.4	530.7	1.3	277.9	7.7	7.1
Net Profit	451.4	445.4	1.4	232.7	13.1	6.4
Margin (%)						
Operating margin	49.1	50.3	(1.2ppts)	48.1	(0.1ppts)	(1.6ppts)
Net Profit	41.3	42.2	(0.9ppts)	40.3	1.8ppts	(1.6ppts)
Segment Operating Margins						
Fixed Income, Currencies, Commodities	29.6	26.6	3.0ppts	20.0	(2.3ppts)	0.5ppts
Equities	58.0	59.3	(1.4ppts)	58.0	(0.1ppts)	0.4ppts
Data, Connectivity and Indices	39.0	40.8	(1.9ppts)	52.8	(1.9ppts)	4.5ppts

Source: SGX, UOB Kay Hian

RESULTS

- Robust FY22 earnings within our expectations.** For FY22, Singapore Exchange (SGX) reported yoy growths in both revenue (+4.1% yoy) and net profit (+1.4% yoy), forming 99% and 100% of our FY22 full-year estimates. Excluding treasury income, SGX's underlying core business revenue would have grown 7.0% yoy while net profit would have grown 4.0% yoy. Operating profit grew 1.3% yoy on higher revenue despite overall expenses being 7.0% higher yoy. Management guided that FY23 expenses are expected to grow 7-9% due to the full-year consolidation of MaxxTrader and higher salary costs. SGX declared a 4QFY22 dividend of 8 S cents, taking total FY22 dividend to 32 S cents, similar to FY21 and implying a FY22 dividend payout ratio of ~76%.
- Strong segmental finish.** SGX's FY22 stable results was driven by a sturdy 2HFY22 as revenue (+7.9% yoy, +10.7% hoh) and net profit (+13.1% yoy, +6.4% hoh) grew. The outperformance was backed by increased trading volatility caused by the ongoing Ukraine-Russia conflict and an uncertain macro-economic outlook. SGX's core revenue growth driver, fixed income, currencies, commodities (FICC) segment posted an impressive 21.8% yoy revenue growth in 2HFY22 as volumes grew. Also, with increased trading volatility, 2HFY22 revenue from the equities derivatives segment surged 15.9% yoy as demand for risk-management increased. The cash equities segment, which experienced declining trading volumes from its post-pandemic highs, also posted a 3.7% yoy growth in revenue as SDAV grew in 2HFY22.

KEY FINANCIALS

Year to 30 Jun (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,055.9	1,099.0	1,171.2	1,237.2	1,274.2
EBITDA	625.3	634.1	683.7	724.1	739.8
Operating profit	530.7	537.4	588.4	628.0	652.8
Net profit (rep./act.)	445.4	451.4	483.3	516.0	536.6
Net profit (adj.)	446.9	451.4	483.3	516.0	536.6
EPS (\$ cent)	41.2	40.9	43.7	46.7	48.6
PE (x)	24.3	24.5	22.9	21.4	20.6
P/B (x)	7.7	6.9	6.3	5.7	5.2
EV/EBITDA (x)	17.1	16.8	15.6	14.7	14.4
Dividend yield (%)	3.2	3.2	3.2	3.2	3.2
Net margin (%)	42.2	41.1	41.3	41.7	42.1
Net debt/(cash) to equity (%)	(26.4)	(1.1)	(12.0)	(21.9)	(30.1)
ROE (%)	33.9	30.8	29.9	29.1	27.4
Consensus net profit	-	-	486	524	562
UOBKH/Consensus (x)	-	-	0.99	0.99	0.95

Source: SGX, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$10.00
Target Price	S\$10.85
Upside	+8.5%
(Previous TP)	S\$11.09)

COMPANY DESCRIPTION

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.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SGX SP
Shares issued (m):	1,068.0
Market cap (\$m):	10,679.8
Market cap (US\$m):	7,733.4
3-mth avg daily t'over (US\$m):	15.3

Price Performance (%)

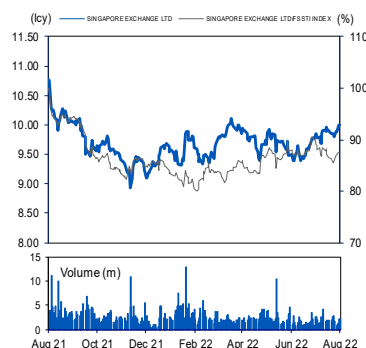
52-week high/low S\$10.77/S\$8.93

1mth	3mth	6mth	1yr	YTD
2.2	2.7	4.0	(7.7)	7.5

Major Shareholders

	%
None	-
-	-
-	-
FY23 NAV/Share (\$)	1.58
FY23 Net Cash/Share (\$)	0.19

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Equity derivatives: Higher trading volumes and fees.** FY22 segmental revenue (+7.6% yoy) formed 99.9% of our FY22 forecasts, in line with expectations. Trading and clearing (T&C) revenue increased 22.1% yoy as overall trading volumes grew 4.3% yoy, led by major derivative products such as the FTSE China A50 Index futures contracts (+9.1% yoy), Nifty 50 Index futures (+13.8% yoy) and MSCI Singapore Index futures (+14.7% yoy) contracts. The average fee per contract also increased to S\$1.51 (S\$1.34 in FY21) as introductory discounts were completely removed in FY22. Treasury income fell sharply to S\$28.6m from S\$57.5m in FY21. However, we reckon that treasury income has bottomed out and is expected to grow from 2HFY23 onwards, driven by higher interest rates. We expect treasury income to increase to ~S\$60m in FY23, expanding margins.
- Cash equities: No floor yet.** Despite dropping 5.9% yoy, segmental revenue from the cash equities segment was in line with expectations, forming 99.8% of our full-year forecasts. The underperformance was largely due to lower T&C revenue (-8.9% yoy) as FY22 total securities trading value fell 5.7% yoy to S\$320.8b in FY22. Also, overall average clearing fees in FY22 declined 0.12bp yoy to 2.56bp (2.68bp in FY21), further dragging down revenue. As Securities Daily Average Value (SDAV) normalises from elevated levels, we expect the cash equities segment to continue its downtrend going into FY23. New initiatives such as the NYSE-SGX partnership for dual listings may help stem the decline but we reckon that this would have limited impact to boost SDAV as more SGX-listed companies would list on NYSE than vice versa.
- FICC: Remarkable growth.** With the consolidation of Maxxtrader along with increased trading volumes, FICC revenue (+19.4% yoy) surged and formed 96.9% of our FY22 forecasts. Excluding Maxxtrader and fixed income revenue, core revenue would have grown 16% yoy, backed by higher OTC FX (+47% yoy) and T&C (+21% yoy) revenue. Trading volumes for commodity and currency derivatives also grew 21% yoy and 10% yoy respectively. Total FX average daily volume (ADV) increased to US\$70b at end-FY22 (US\$57b: end-1HFY22) and management is optimistic that ADV may reach US\$100b in the medium term.
- DCI: Reliable and stable.** In line with expectations, revenue grew 3.0% yoy due to higher connectivity revenue and an increase in data subscription.

STOCK IMPACT

- Mixed blessing of interest rate hikes.** To tackle stubborn and record-high inflation, the US Fed has already raised interest rates four times in 2022, with the latest hike being a 0.75% hike. The Fed is expected to continue raising rates going into 1HFY23 but at a slower pace. With rising interest rates, we expect a significant boost in treasury income starting 2HFY23. However, this may also depress securities trading volumes and impact the cash equities segment in FY23.

EARNINGS REVISION/RISK

- We lower our FY23-24 earnings forecast by 4.2% and 6.7% respectively,** due to higher cost assumptions than previously expected while also adding our FY25 forecasts.

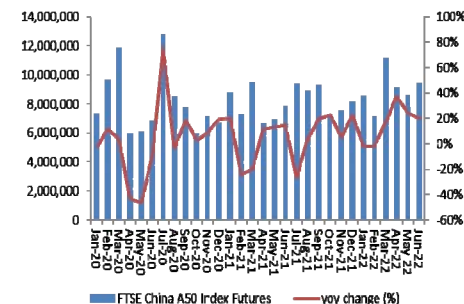
VALUATION/RECOMMENDATION

- Maintain BUY with a lower PE-based target price of S\$10.85 (S\$11.09).** We have pegged our PE multiple to the same 23.5x FY23F earnings, +1SD of SGX's historical forward PE. As SGX is currently trading below its historical mean, we reckon that there is some upside at current price levels. Robust contributions from FICC and equity derivatives are set to continue in FY23 due to volatile macroeconomic conditions whilst higher treasury income from interest rate hikes is expected to start from 2HFY23. With a moderate yield of ~3%, we like SGX for its resilient business model that benefits from global economic uncertainty.

SHARE PRICE CATALYST

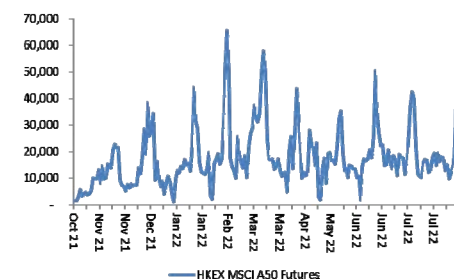
- Secondary listings of foreign listed entities.
- Longer-than-expected period of trading volatility.

SGX'S CHINA A50 INDEX FUTURES MONTHLY TRADE VOLUME



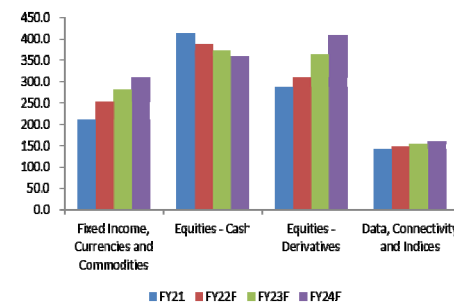
Source: Singapore Exchange, UOB Kay Hian

HKEX'S MSCI CHINA A50 INDEX FUTURES DAILY TRADED VOLUME SINCE LAUNCH



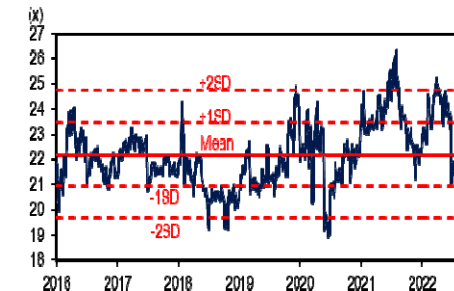
Source: Hong Kong Exchange, UOB Kay Hian "As of 18th Aug 22

SGX'S ANNUAL SEGMENTAL REVENUE BREAKDOWN (\$M)



Source: Singapore Exchange, UOB Kay Hian

SGX'S HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Net turnover	1,099.0	1,171.2	1,237.2	1,274.2
EBITDA	634.1	683.7	724.1	739.8
Deprec. & amort.	96.7	95.3	96.1	87.0
EBIT	537.4	588.4	628.0	652.8
Total other non-operating income	17.7	0.0	0.0	0.0
Associate contributions	(10.5)	(4.0)	(4.0)	(4.0)
Pre-tax profit	544.6	584.4	624.0	648.8
Tax	(92.7)	(101.1)	(108.0)	(112.2)
Minorities	(0.5)	0.0	0.0	0.0
Net profit	451.4	483.3	516.0	536.6
Net profit (adj.)	451.4	483.3	516.0	536.6

BALANCE SHEET

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Fixed assets	200.5	180.2	159.1	147.1
Other LT assets	1,494.9	1,490.9	1,486.9	1,482.9
Cash/ST investment	752.2	938.4	1,143.2	1,354.6
Other current assets	1,400.6	1,313.6	1,372.9	1,399.5
Total assets	3,848.2	3,923.1	4,162.1	4,384.1
ST debt	41.9	41.9	41.9	41.9
Other current liabilities	1,400.3	1,334.0	1,399.0	1,426.5
LT debt	693.9	693.9	693.9	693.9
Other LT liabilities	162.6	162.6	162.6	162.6
Shareholders' equity	1,544.4	1,685.6	1,859.6	2,054.1
Minority interest	5.1	5.1	5.1	5.1
Total liabilities & equity	3,848.2	3,923.1	4,162.1	4,384.0

CASH FLOW

Year to 30 Jun (\$m)	2022	2023F	2024F	2025F
Operating	583.5	601.1	624.0	626.3
Pre-tax profit	555.1	588.4	628.0	652.8
Tax	(99.1)	(101.1)	(108.0)	(112.2)
Deprec. & amort.	96.7	95.3	96.1	87.0
Working capital changes	(8.9)	18.5	7.9	(1.3)
Non-cash items	39.7	0.0	0.0	0.0
Investing	(549.7)	(75.0)	(75.0)	(75.0)
Capex (growth)	(180.6)	0.0	0.0	0.0
Capex (maintenance)	(44.2)	(75.0)	(75.0)	(75.0)
Investments	(119.5)	0.0	0.0	0.0
Proceeds from sale of assets	55.0	0.0	0.0	0.0
Others	(260.5)	0.0	0.0	0.0
Financing	(108.7)	(342.1)	(342.1)	(342.1)
Dividend payments	(342.2)	(342.1)	(342.1)	(342.1)
Proceeds from borrowings	82.0	0.0	0.0	0.0
Loan repayment	(153.1)	0.0	0.0	0.0
Others/interest paid	304.6	0.0	0.0	0.0
Net cash inflow (outflow)	(74.9)	184.1	206.9	209.3
Beginning cash & cash equivalent	833.4	754.3	936.3	1,145.3
Changes due to forex impact	(6.3)	0.0	0.0	0.0
Ending cash & cash equivalent	752.2	938.4	1,143.2	1,354.6

KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	57.7	58.4	58.5	58.1
Pre-tax margin	49.6	49.9	50.4	50.9
Net margin	41.1	41.3	41.7	42.1
ROA	13.1	12.4	12.8	12.6
ROE	30.8	29.9	29.1	27.4
Growth				
Turnover	4.1	6.6	5.6	3.0
EBITDA	1.4	7.8	5.9	2.2
Pre-tax profit	1.5	7.3	6.8	4.0
Net profit	1.3	7.1	6.8	4.0
Net profit (adj.)	1.0	7.1	6.8	4.0
EPS	(0.8)	7.1	6.8	4.0
Leverage				
Debt to total capital	32.2	30.3	28.3	26.3
Debt to equity	47.6	43.7	39.6	35.8
Net debt/(cash) to equity	(1.1)	(12.0)	(21.9)	(30.1)

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