

## COMPANY UPDATE

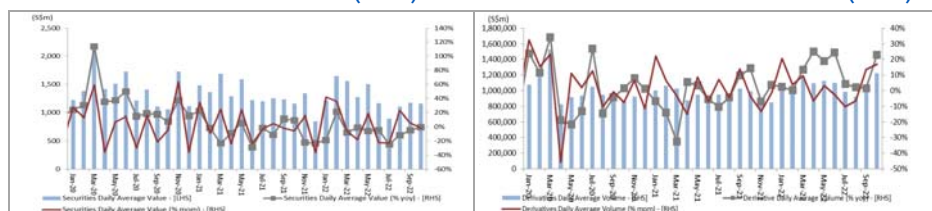
### Singapore Exchange (SGX SP)

Monthly Performance Largely In Line, Forex And Commodities Outperformed

For Oct 22, SDAV softened slightly while DDAV rose sharply, driven by the equity, forex and commodities segments. SGX's equity index futures surged from higher FTSE China A50 index futures volumes. The forex and commodities derivatives continued their outperformance as volumes reached record highs. In view of a lack of near-term catalysts, we maintain HOLD with the same target price of S\$10.04.

#### SECURITIES DAILY AVERAGE VALUE (SDAV)

#### DERIVATIVES DAILY AVERAGE VOLUME (DDAV)



Source: Singapore Exchange, UOB Kay Hian

Source: Singapore Exchange, UOB Kay Hian

## WHAT'S NEW

- **Securities turnover value softened.** In line with expectations, Securities Daily Average Value (SDAV) dropped slightly (-0.3% yoy, -1.5% mom), supported by an increase in market turnover value for structured warrants and daily leverage certificates (+71% mom). Assuming flat growth from these two securities, SDAV would have fallen 2.4% yoy. Barring any unforeseen spike in trading volatility, we expect SDAV to continue its downtrend.

**Record-high derivatives volume in line.** Derivatives Daily Average Volume (DDAV) surged (+23.0% yoy, +16.8% mom) to a record high since Mar 20, driven by higher total volumes across equity, forex and commodities derivatives. Concerns over China's economic outlook, along with optimism over a slowdown in interest-rate hikes led to increased trading activity. Total equity index futures volumes grew 14.7% yoy, contributed by increased FTSE China A50 index futures volumes (+15.2% yoy, +8.3% mom) and China H50 index futures volumes (+78.0% yoy, +40.0% mom). Other major equity indexes such as the FTSE Taiwan index futures (+16.8% yoy, +11.8% mom) and MSCI Singapore index futures (+33.5% yoy, +9.8% mom) also grew, with the latter at an all-time high.

- **Forex and commodities outperformed.** Above expectations, total forex futures volumes surged (+48.8% yoy, -4.8% mom) as Singapore Exchange's (SGX) three major forex contracts outperformed. Average daily volume (ADV) of USD/CNH futures (+96.7% yoy, -2.7% mom), KRW/USD futures (+44.7% yoy, +19.3% mom) and INR/USD futures (+16.5% yoy, -8.3% mom) climbed from elevated institutional hedging demand, in response to heightened inflation expectations and sustained US dollar strength. Keeping up with forex futures, commodity derivatives volumes also increased 52.6% yoy as iron ore futures climbed (+78.6% yoy, -2.4% mom) on the back of increased hedging demand, while dairy futures surged (+60% yoy, +19.6% mom) from increasing adoption.

## 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	634.1	588.4	628.0	652.8
Net profit (rep./act.)	445.4	548.1	483.3	516.0	536.6
Net profit (adj.)	446.9	548.1	483.3	516.0	536.6
EPS (\$ cent)	41.2	49.6	43.7	46.7	48.6
PE (x)	22.0	18.3	20.8	19.4	18.7
P/B (x)	7.0	6.3	5.8	5.2	4.7
EV/EBITDA (x)	15.5	15.3	14.2	13.4	13.1
Dividend yield (%)	3.5	3.5	3.5	3.5	3.5
Net margin (%)	42.2	49.9	41.3	41.7	42.1
Net debt/(cash) to equity (%)	(26.4)	(1.1)	(11.9)	(21.9)	(30.0)
ROE (%)	33.9	37.4	29.9	29.1	27.4
Consensus net profit	-	-	479	516	537
UOBKH/Consensus (x)	-	-	1.01	1.00	1.00

Source: Singapore Exchange, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	S\$9.08
Target Price	S\$10.04
Upside	+10.5%

## COMPANY DESCRIPTION

Singapore Exchange 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):	1,069.2
Market cap (\$m):	9,708.7
Market cap (US\$m):	7,102.7
3-mth avg daily t'over (US\$m):	16.2
Price Performance (%)	

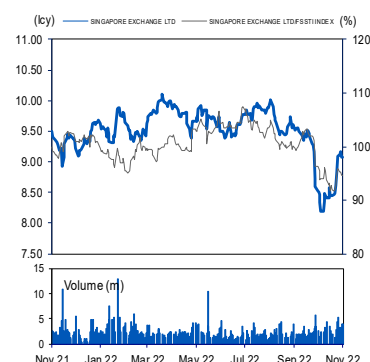
52-week high/low S\$10.10/S\$8.20

1mth	3mth	6mth	1yr	YTD
5.6	(8.2)	(6.1)	(4.1)	(2.4)

Major Shareholders	%
-	-
-	-
-	-

FY23 NAV/Share (\$)	1.58
FY23 Net Cash/Share (\$)	0.19

## PRICE CHART



Source: Bloomberg

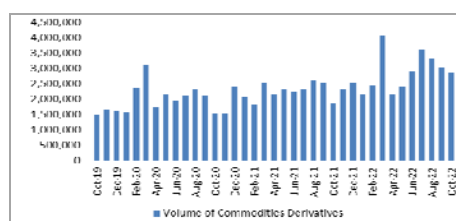
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## STOCK IMPACT

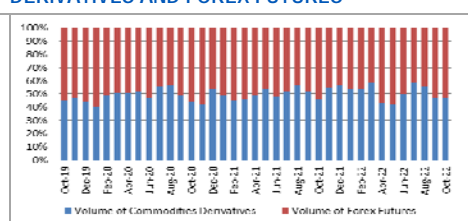
- FICC becoming a major revenue contributor...** Earmarked as SGX's future revenue growth driver, revenue from the fixed income, currencies and commodities (FICC) segment has been growing at a robust CAGR of 22.1% since FY19. Revenue from the FICC segment formed around 23% of SGX's total FY22 revenue (from 15% in FY19), catching up to the equity derivatives (28% of FY22) and cash equities segments (35% of FY22). Based on our estimates, we expect FICC's segmental revenue to continue its upward momentum as revenue for both its commodities and forex derivatives grow.
- ...with commodities as vital as forex for future sustained growth.** Total volumes for both the sub-segments have been growing steadily, backed by increasing adoption and demand for risk management. Historically, the volume mix has been largely similar between the two sub-segments since pre-COVID-19 (Sep 19), and commodities/forex derivatives formed 46.8%/53.2% of total volumes respectively in Oct 22, implying roughly equal contributions for FICC's robust growth. For the FICC segment to continue and maintain its strong revenue growth momentum moving forward, growth from the higher-yielding commodities derivatives volumes has to match with the record-high volumes the forex futures have been achieving.

## MONTHLY COMMODITIES DERIVATIVES VOLUME



Source: Singapore Exchange, UOB Kay Hian

## MONTHLY VOLUME MIX FOR COMMODITIES DERIVATIVES AND FOREX FUTURES



Source: Singapore Exchange, UOB Kay Hian

- Outperforming iron ore and rubber derivatives.** Contributing around 90% of total commodities volumes, iron ore (about 85%) and rubber derivatives (about 5%) have been the main growth engines for the commodities segment. Having a commanding market share for iron ore derivatives, SGX's volumes have been increasing sharply, reaching a record-high 8.8m contracts in 1QFY23. SGX's SICOM rubber futures, the world's pricing bellwether for natural rubber, has outperformed as well, growing 61.3% yoy in Sep 22 to near record highs. With an expected global recession approaching, along with China's uncertain economic developments, trading volatility is expected to be elevated in the subsequent quarters, benefitting macro proxies such as iron ore and rubber derivatives.

- New commodity derivatives to drive medium to long-term growth.** In response to supercharged growth in electric vehicles and decarbonisation, SGX launched a suite of energy metal derivatives in Sep 22, providing market participants with price discovery of battery raw materials such as cobalt and lithium. SGX also launched Shanghai rebar futures in Oct 22, providing market participants with capital-efficient access to China, the world's largest producer and consumer of steel. Although it is still early days, we opine that these new derivatives have the potential to grow similarly to the recently launched dairy derivatives. Since its inception, SGX has seen robust growth of 31x from Nov 21 to Oct 22, with 1QFY23 dairy derivatives volumes increasing by 36.9% yoy and 13.7% qoq.

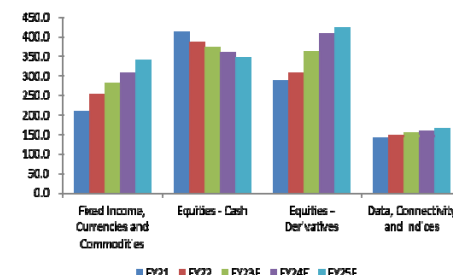
## EARNINGS REVISION/RISK

- No changes to our forecasts.**

## VALUATION/RECOMMENDATION

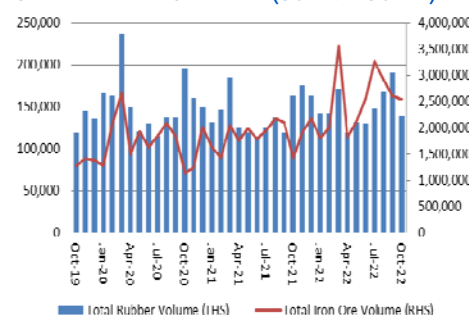
- Maintain HOLD with the same PE-based target price of S\$10.04.** We have pegged to the same PE multiple of 22.2x FY23F earnings, SGX's historical forward mean. Despite robust contributions from forex and commodities derivatives, we reckon that there are no near-term catalysts to justify a higher valuation. Higher treasury income from interest rate hikes is expected to start from 2HFY23, which we reckon has already been priced in. With a moderate yield of about 3%, we like still SGX for its resilient business model that benefits from the global economic uncertainty, but recommend waiting for better entry points.

## SEGMENTAL REVENUE FOR FY21-25



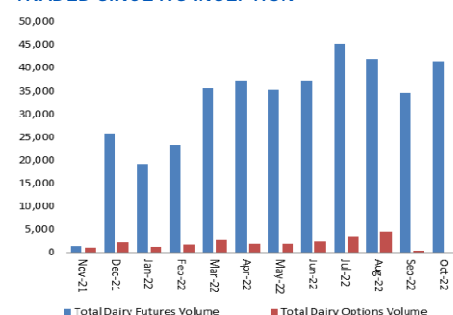
Source: Singapore Exchange, UOB Kay Hian

## TOTAL MONTHLY VOLUME OF RUBBER AND IRON ORE DERIVATIVES TRADED (OCT 19 - OCT 22)



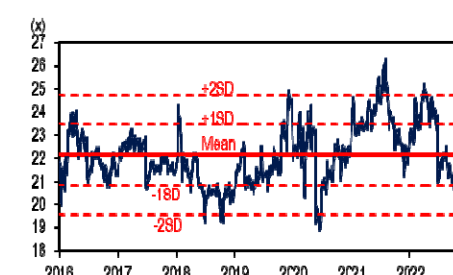
Source: Singapore Exchange, UOB Kay Hian

## TOTAL MONTHLY VOLUME OF DAIRY DERIVATIVES TRADED SINCE ITS INCEPTION



Source: Singapore Exchange, UOB Kay Hian

## 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.	0.0	95.3	96.1	87.0
EBIT	634.1	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	641.2	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	548.1	483.3	516.0	536.6
Net profit (adj.)	548.1	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	936.3	1,143.2	1,352.4
Other current assets	1,400.6	1,315.8	1,370.8	1,401.6
<b>Total assets</b>	<b>3,848.2</b>	<b>3,923.1</b>	<b>4,160.0</b>	<b>4,384.1</b>
ST debt	41.9	41.9	41.9	41.9
Other current liabilities	1,400.3	1,334.0	1,397.0	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
<b>Total liabilities &amp; equity</b>	<b>3,848.2</b>	<b>3,923.1</b>	<b>4,160.0</b>	<b>4,384.1</b>

## 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
<b>Net cash inflow (outflow)</b>	<b>(74.9)</b>	<b>184.1</b>	<b>206.9</b>	<b>209.3</b>
Beginning cash & cash equivalent	833.4	752.2	936.3	1,143.2
Changes due to forex impact	(6.3)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>752.2</b>	<b>936.3</b>	<b>1,143.2</b>	<b>1,352.4</b>

## KEY METRICS

Year to 30 Jun (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	57.7	58.4	58.5	58.1
Pre-tax margin	58.3	49.9	50.4	50.9
Net margin	49.9	41.3	41.7	42.1
ROA	16.0	12.4	12.8	12.6
ROE	37.4	29.9	29.1	27.4
<b>Growth</b>				
Turnover	4.1	6.6	5.6	3.0
EBITDA	1.4	7.8	5.9	2.2
Pre-tax profit	19.5	(8.9)	6.8	4.0
Net profit	23.0	(11.8)	6.8	4.0
Net profit (adj.)	22.6	(11.8)	6.8	4.0
EPS	20.5	(11.8)	6.8	4.0
<b>Leverage</b>				
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)	(11.9)	(21.9)	(30.0)

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