

COMPANY RESULTS

Singapore Exchange (SGX SP)

FY23: Results Slightly Above Expectations as FICC Outperforms

For FY23, SGX reported higher revenue (+8.7% yoy) and adjusted PATMI (+10.3% yoy), driven by the FICC segment and higher treasury income. The cash equities segment underperformed as total traded value continued its decline. Despite lower traded volumes, higher average fees helped support the equity derivatives segment. With a lack of near-term catalysts, we maintain HOLD but with a higher target price of S\$10.46 (S\$10.28 previously).

FY23 RESULTS

Year to 30 Jun (S\$m)	FY23	FY22	yoy% Chg	2HFY23	yoy% Chg
Turnover	1,194.4	1,099.0	8.7	623.0	7.9
Fixed Income, Currencies, Commodities	338.2	252.7	33.8	183.9	32.5
Cash Equities	346.1	388.4	(10.9)	175.0	(11.5)
Equities Derivatives	363.1	310.4	17.0	189.6	13.8
Data, Connectivity and Indices	147.1	147.4	(0.3)	74.6	0.4
EBITDA	687.9	634.1	8.5	353.8	7.8
Operating Profit	589.5	537.4	9.7	305.5	9.9
Headline PATMI	570.9	451.4	26.5	286.3	23.1
Adjusted PATMI	503.2	456.4	10.3	266.4	13.6
Margin (%)					
EBITDA Margin	57.6	57.7	(0.1ppt)	56.8	0.0ppt
Operating Margin	49.4	48.9	0.5ppt	49.0	0.9ppt
PATMI Margin	33.6	29.2	4.4ppt	46.0	5.7ppt
Adjusted PATMI Margin	42.1	41.5	0.6ppt	42.8	2.1ppt

Source: SGX, UOB Kay Hian

RESULTS

- Strong FY23 performance.** Singapore Exchange (SGX) reported strong yoy growths in revenue (+8.7% yoy), EBITDA (+8.5% yoy) and adjusted PATMI (+10.3% yoy), forming 102%, 101% and 108% of our FY23 full-year estimates respectively and slightly above our expectations. The slight beat on adjusted PATMI was due to stronger-than-expected interest income (FY23: S\$28.1m vs FY22: S\$3.3m) which would have brought FY23 adjusted PATMI closer to our estimates. The robust top- and bottom line yoy growths were largely driven by higher treasury income, higher average fees from key contracts and record-high volumes from the Fixed Income, Currencies and Commodities (FICC) segment. Similarly, for 2HFY23, revenue (+7.9% yoy), EBITDA (+7.8% yoy) and adjusted PATMI (+13.6% yoy) rose yoy.
- Stable margins for now.** Despite increased operating expenses (+8.9% yoy), operating (+0.5ppt yoy) and adjusted PATMI (+0.6ppt yoy) margins expanded yoy, which we reckon came largely from higher treasury income (+S\$88.9m yoy). Management has guided that the group expects mid-single-digit growth in FY24 overall expenses, given higher expected staff costs and investments for SGX's Over-The-Counter Forex (OTC FX) business which we reckon may drag FY24 margins.
- Lower-than-expected dividend.** SGX declared a final quarterly dividend of 8.5 S cents, taking FY23 total dividends to 32.5 S cents (FY22: 32.0 S cents) and implying a FY23 dividend payout ratio of 69%, below our expectations of 34.0 S cents. We expected SGX to increase its 2HFY23 dividend given that historical dividend payout ratios ranged from 76% to 88%. However, the group has guided for a mid-single-digit % growth in dividends per share moving forward.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,099.0	1,194.4	1,314.9	1,374.3	1,412.5
EBITDA	634.1	687.9	749.6	776.2	790.0
Operating profit	537.4	589.5	650.6	678.6	692.5
Net profit (rep./act.)	451.4	570.9	545.0	568.4	581.9
Net profit (adj.)	451.4	503.2	545.0	568.4	581.9
EPS (S\$ cent)	40.9	45.5	49.3	51.4	52.6
PE (x)	23.4	21.0	19.4	18.6	18.2
P/B (x)	6.6	6.0	5.5	5.0	4.6
EV/EBITDA (x)	16.0	14.7	13.5	13.1	12.8
Dividend yield (%)	3.3	3.4	3.7	3.8	3.9
Net margin (%)	41.1	47.8	41.4	41.4	41.2
Net debt/(cash) to equity (%)	(1.1)	(5.0)	(15.4)	(24.0)	(33.7)
ROE (%)	30.8	35.2	30.5	28.9	27.1
Consensus net profit	-	-	508	535	650
UOBKH/Consensus (x)	-	-	1.07	1.06	0.90

Source: SGX, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$9.57
Target Price	S\$10.46
Upside	+9.2%
(Previous TP)	S\$10.28

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):	1,068.0
Market cap (S\$m):	10,220.6
Market cap (US\$m):	7,518.5
3-mth avg daily t'over (US\$m):	12.0

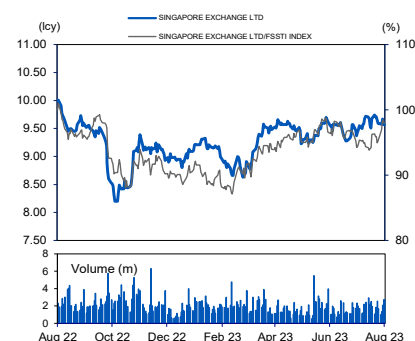
Price Performance (%)

52-week high/low	S\$10.01/S\$8.20
1mth	3.7
3mth	6.7
6mth	(3.7)
1yr	6.9
YTD	6.9

Major Shareholders

None	-
FY24 NAV/Share (S\$)	1.75
FY24 Net Cash/Share (S\$)	0.27

PRICE CHART



Source: Bloomberg

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- Cash equities: Reaching a bottom.** FY23 segmental revenue fell (-10.9% yoy) as Securities Daily Average Value (SDAV) (-13.4% yoy) and total traded value (-14.1% yoy) moderated lower. However, this was still largely within our expectations, forming 105% of our full-year estimates. FY23 trading and clearing revenue (T&C) fell 16.4% yoy while FY23 overall average clearing fees also declined 0.07bp yoy to 2.49bp (FY22: 2.56bp), due to higher participation from active traders and market makers. Looking forward, given that 2HFY23 total traded value was stable hoh and is currently at pre-pandemic levels, we opine that revenue from the cash equities segment is nearing a bottom. We believe that SDAV and cash equities revenue are likely to stabilise in 1HFY24 before returning to growth in 2HFY24, in line with expected interest rate cuts which would likely drive trading velocity.
- Equity derivatives: Weak underlying performance.** In line with expectations, FY23 segmental revenue grew by 17.0% yoy and formed 103% of our full-year forecasts. However, this revenue growth was largely due to a ramp-up in treasury income (+S\$52.9m yoy). Due to weaker FY23 total trading volumes (-8.6% yoy), FY23 T&C revenue was only stable yoy with 2HFY23 T&C revenue falling 9.5% yoy as 2HFY23 volumes also fell 16.9% yoy, offset by higher average fees for key contracts. The underperformance was led by broad-based FY23 volume declines across most key contracts such as SGX's FTSE China A50 Index futures (-11.0% yoy), Japan Nikkei 225 Index futures and options (-15.9% yoy) and FTSE Taiwan Index futures (-5.8% yoy). Moving forward, in the short term, we expect total trading volumes to stay muted due to an increasingly uncertain macro-economic outlook that is dampening investor risk-on sentiment. Furthermore, starting FY24, the transition of SGX's Nifty derivatives to National Stock Exchange of India's IFSC-SGX Connect would result in a loss of ~S\$8m-10m in revenue, based on our estimates.
- FICC: Outperformance yet again.** FY23 revenue (+33.8% yoy) surged, forming 102% of our full-year forecasts and in line with our expectations. Excluding fixed income revenue, core FICC revenue grew 37.1% yoy, backed by higher OTC FX (+29.2% yoy), T&C (+23.5% yoy) and treasury income (+S\$46.1m yoy). The outperformance was driven by record-high trading volumes for both commodities (+35.4% yoy) and currency derivatives (+28.7% yoy), coupled with the full-year consolidation of MaxxTrader. Total FX average daily volume (ADV) increased to US\$75.9b at end-FY23 and management is optimistic that ADV may reach US\$100b by FY25 or earlier. FICC segmental revenue now accounts for 28.3% of SGX's overall FY23 revenue, on par with both cash equities (29.0%) and equity derivatives (28.2%). Moving forward, we reckon that revenue from the FICC segment will continue its upward momentum and become the largest revenue contributor in FY24, driven by China's reopening and higher risk-management demand from an uncertain macro-economic outlook.
- DCI: Reliable and stable.** In line with expectations and forming 98% of our full-year forecasts, revenue was stable yoy at S\$147m, driven by higher connectivity revenue (+7.0% yoy) from existing clients but offset by lower market data and indices revenue (-5.9% yoy).

EARNINGS REVISION/RISK

- We increase our FY24-25 earnings forecasts**, on the back of higher FICC volumes and treasury income. For FY24-25, we have adjusted our adjusted PATMI estimates to S\$545.0m (S\$500.8m previously) and S\$568.4m (S\$531.5m previously) respectively while adding our FY26 adjusted PATMI estimate at S\$581.9m.

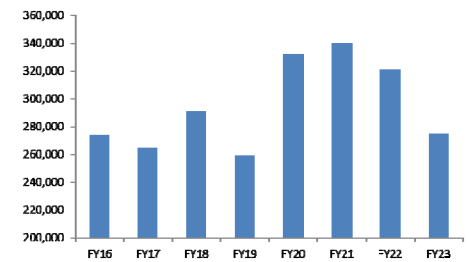
VALUATION/RECOMMENDATION

- Maintain HOLD with a slightly higher PE-based target price of S\$10.46 (S\$10.28 previously).** We have now pegged to 21x PE multiple (22x previously), -0.5SD of SGX's historical forward mean (pegged to mean previously), to FY24F earnings. We have used a lower PE multiple to account for the expected short-term surge in FY24 treasury income.
- Despite robust growth from FICC segment, we reckon that there are no near-term catalysts to justify a higher valuation. Higher treasury income from interest rate hikes has already started coming through, which we reckon has already been priced in. Despite a subpar 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.

SHARE PRICE CATALYST

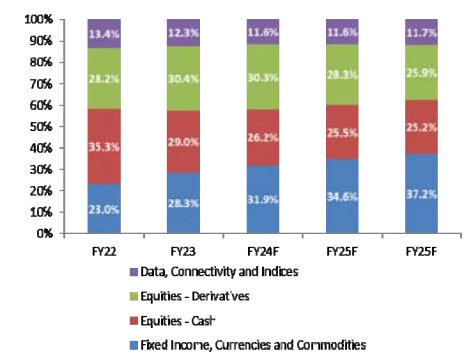
- Longer-than-expected period of trading volatility, earnings-accretive acquisitions.

TOTAL ANNUAL SECURITIES TRADED VALUE (\$M)



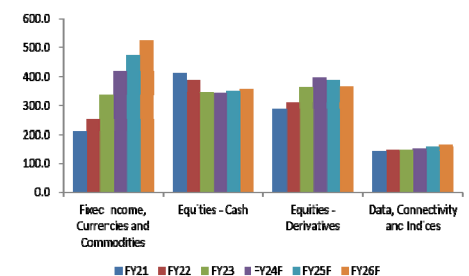
Source: Singapore Exchange, UOB Kay Hian

SGX'S ANNUAL SEGMENTAL REVENUE BREAKDOWN (%)



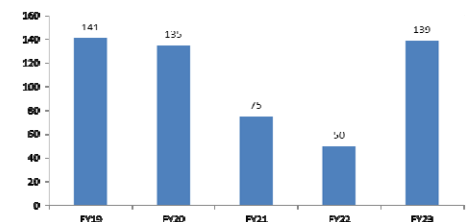
Source: Singapore Exchange, UOB Kay Hian

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



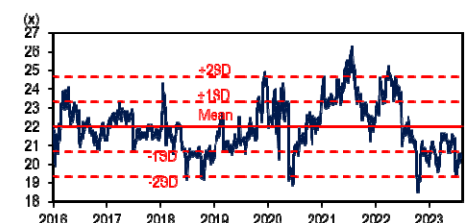
Source: Singapore Exchange, UOB Kay Hian

SGX'S ANNUAL TREASURY INCOME (\$M)



Source: Singapore Exchange, UOB Kay Hian

SGX'S HISTORICAL FORWARD PE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Net turnover	1,194.4	1,314.9	1,374.3	1,412.5
EBITDA	687.9	749.6	776.2	790.0
Deprec. & amort.	98.3	99.1	97.6	97.6
EBIT	589.5	650.6	678.6	692.5
Total other non-operating income	99.8	17.7	17.7	20.0
Associate contributions	(15.6)	(15.6)	(15.6)	(15.6)
Pre-tax profit	673.8	652.7	680.7	696.9
Tax	(103.3)	(107.7)	(112.3)	(115.0)
Minorities	0.3	0.0	0.0	0.0
Net profit	570.9	545.0	568.4	581.9
Net profit (adj.)	503.2	545.0	568.4	581.9

BALANCE SHEET

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Fixed assets	192.9	168.9	146.3	123.7
Other LT assets	1,408.9	1,393.4	1,377.8	1,362.2
Cash/ST investment	777.3	980.1	1,184.8	1,447.5
Other current assets	1,402.2	1,514.3	1,569.6	1,605.1
Total assets	3,781.3	4,056.7	4,278.4	4,538.6
ST debt	351.9	351.9	351.9	351.9
Other current liabilities	1,286.5	1,390.8	1,428.9	1,502.5
LT debt	340.0	340.0	340.0	340.0
Other LT liabilities	99.3	99.3	99.3	99.3
Shareholders' equity	1,700.9	1,871.9	2,055.6	2,242.1
Minority interest	2.7	2.7	2.7	2.7
Total liabilities & equity	3,781.3	4,056.7	4,278.4	4,538.6

CASH FLOW

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Operating	446.7	651.8	664.3	733.1
Pre-tax profit	689.4	668.2	696.3	712.5
Tax	(98.9)	(107.7)	(112.3)	(115.0)
Deprec. & amort.	98.3	99.1	97.6	97.6
Working capital changes	(161.7)	(7.8)	(17.2)	38.1
Non-cash items	(80.4)	0.0	0.0	0.0
Investing	12.3	(75.0)	(75.0)	(75.0)
Capex (growth)	(18.1)	0.0	0.0	0.0
Capex (maintenance)	(54.3)	(75.0)	(75.0)	(75.0)
Investments	(260.9)	0.0	0.0	0.0
Proceeds from sale of assets	322.1	0.0	0.0	0.0
Others	23.5	0.0	0.0	0.0
Financing	(432.9)	(374.0)	(384.7)	(395.4)
Dividend payments	(344.2)	(374.0)	(384.7)	(395.4)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(65.7)	0.0	0.0	0.0
Others/interest paid	(23.1)	0.0	0.0	0.0
Net cash inflow (outflow)	26.2	202.8	204.6	262.8
Beginning cash & cash equivalent	752.2	777.3	980.1	1,184.8
Changes due to forex impact	(1.0)	0.0	0.0	0.0
Ending cash & cash equivalent	777.3	980.1	1,184.8	1,447.5

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	57.6	57.0	56.5	55.9
Pre-tax margin	56.4	49.6	49.5	49.3
Net margin	47.8	41.4	41.4	41.2
ROA	15.0	13.9	13.6	13.2
ROE	35.2	30.5	28.9	27.1
Growth				
Turnover	8.7	10.1	4.5	2.8
EBITDA	8.5	9.0	3.5	1.8
Pre-tax profit	23.7	(3.1)	4.3	2.4
Net profit	26.5	(4.5)	4.3	2.4
Net profit (adj.)	11.5	8.3	4.3	2.4
EPS	11.4	8.3	4.3	2.4
Leverage				
Debt to total capital	28.9	27.0	25.2	23.6
Debt to equity	40.7	37.0	33.7	30.9
Net debt/(cash) to equity	(5.0)	(15.4)	(24.0)	(33.7)

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