

COMPANY UPDATE

Singapore Exchange (SGX SP)

1HFY24 Results Preview: FICC Segment To Become Largest Revenue Contributor

We expect SGX to report higher 1HFY24 revenue (+12% yoy) and adjusted PATMI (+12% yoy), driven by the FICC segment and higher treasury income. Both the cash equities and equity derivatives segments are poised to underperform as 1HFY24 total securities traded value and volumes fell respectively. The FICC segment is set to post record-high revenue driven by robust volumes. With a lack of near-term catalysts, we maintain HOLD and a lower target price of S\$10.42 (S\$10.46 previously).

WHAT'S NEW

- Singapore Exchange (SGX) is set to release its 1HFY24 results on 1 Feb 24, before the market opens. We list some factors below that would impact its upcoming results.
- **Weak securities turnover.** For 1HFY24, total securities turnover value fell by 11.9% yoy, slightly below our expectation. The larger-than-expected yoy drop was largely due to elevated interest rates suppressing trading velocity, coupled with ongoing global geopolitical tensions dampening investor sentiment. Also, with SGX's average clearing fee expected to be lower yoy, we reckon that this would lead to a 16% yoy fall in 1HFY24 cash equities trading and clearing (T&C) revenue to around S\$75m.
- **Stable derivatives volume.** In line with our expectation, 1HFY24 total derivatives traded volumes were slightly higher at 0.8% yoy, backed by record-high volumes from both commodities (+48.3% yoy) and foreign exchange (+23.8% yoy) derivatives but offset by lower equity derivatives volumes (-13.6% yoy). Total equity derivatives volume was largely dragged by SGX's FTSE China A50 Index Futures whereby 1HFY24 traded volumes fell by 9.3% yoy. With average clearing fee expected to stay stable yoy, we reckon that stronger 1HFY24 T&C revenue from the fixed income, currencies and commodities (FICC) segment (+28.8% yoy, +S\$31m) would offset the fall in 1HFY24 T&C revenue from equity derivatives (-14.0% yoy, -S\$20m).
- **Ramp-up in treasury income.** We expect 1HFY24 treasury income to surge past pre-COVID-19 (FY19-20) levels of S\$140m, given that the current Fed funds rate of 5.25-5.50% is double that of FY19-20's. As a recap, overall treasury income doubled in 2HFY23 to S\$92m and we expect 1HFY24 treasury income to surge to around S\$130m for 1HFY24, representing roughly 10% of our FY24 overall revenue estimates.
- **Higher yoy dividend.** As a recap, SGX declared an interim dividend of 16 S cents for 1HFY23 and a final dividend of 16.5 S cents for 2HFY23 respectively, implying a total FY23 dividend of 32.5 S cents and dividend payout ratio (adjusted earnings) of 69%. The group had also guided for a mid-single-digit % growth in total dividends per share moving forward into FY24. Thus, we expect 1HFY24 dividend payout ratio to be around 70% at 17 S cents/share, similar to 1HFY23's 72%. We also expect FY24 total dividends per share to be at 35 S cents/share, implying a 7% yoy increase in total dividends per share.

KEY FINANCIALS

Year to 30 Jun (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,099.0	1,194.4	1,312.5	1,355.8	1,381.2
EBITDA	634.1	687.9	747.7	761.1	764.5
Operating profit	537.4	589.5	648.6	663.5	667.0
Net profit (rep./act.)	451.4	570.9	543.4	555.8	560.6
Net profit (adj.)	451.4	503.2	543.4	555.8	560.6
EPS (S\$ cent)	40.9	45.5	49.1	50.3	50.7
PE (x)	23.6	21.2	19.6	19.2	19.0
P/B (x)	6.7	6.1	5.5	5.0	4.7
EV/EBITDA (x)	15.8	14.6	13.4	13.2	13.1
Dividend yield (%)	3.3	3.4	3.6	3.7	3.8
Net margin (%)	41.1	47.8	41.4	41.0	40.6
Net debt/(cash) to equity (%)	(1.1)	(5.0)	(15.4)	(24.0)	(33.5)
ROE (%)	30.8	35.2	30.4	28.4	26.4
Consensus net profit	-	-	536	545	561
UOBKH/Consensus (x)	-	-	1.01	1.02	1.00

Source: Singapore Exchange, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$9.64
Target Price	S\$10.42
Upside	+8.1%
(Previous TP)	S\$10.46)

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 s

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SGX SP
Shares issued (m):	1,070.2
Market cap (S\$m):	10,316.8
Market cap (US\$m):	7,669.9
3-mth avg daily t'over (US\$m):	11.3

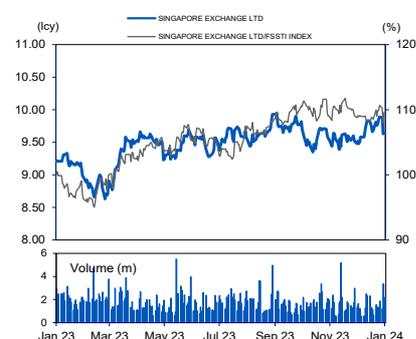
Price Performance (%)

52-week high/low	S\$9.95/S\$8.63			
1mth	3mth	6mth	1yr	YTD
1.3	(1.8)	1.8	5.8	(1.9)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

ANALYST(S)

Llalleythan Tan
+6565906624
yirong@uobkayhian.com

Heidi Mo
+6565906630
heidimo@uobkayhian.com

STOCK IMPACT

- 1HFY24: Boost from treasury income and FICC.** Similar to 2HFY23, we expect higher yoy 1HFY24 overall revenue and adjusted PATMI (excluding S\$47.8m one-off in 1HFY23) of around S\$640m (+11% yoy) and S\$265m (+12% yoy) respectively, driven by higher treasury income and strong contributions from the FICC segment. For FY24, we expect overall revenue (+10% yoy) and adjusted PATMI (+8% yoy) to grow.
- Cash equities: Bottoming out.** As 1HFY24 total securities traded value fell by 11.9% yoy, we expect 1HFY24 cash equities' overall segmental revenue to also drop by 7% yoy to around S\$160m, dragged by lower T&C revenue and average clearing fees as mentioned earlier. Moving forward, we are still of the view that securities daily average value (SDAV) and cash equities revenue are likely to bottom out in 1HFY24 before returning to growth in 2HFY24, in line with expected interest rate cuts which would likely improve trading velocity.
- Equity derivatives: Soft underlying performance.** Despite a 13.6% yoy decline in total equity volumes in FY23, we expect 1HFY24 overall segmental revenue to increase by 6% yoy to S\$185m. This is largely due to higher treasury income, offset by lower T&C revenue (-14% yoy). Moving forward, we opine that total traded volumes growth may stay muted due to an increasingly uncertain macro-economic outlook that is dampening investor risk-on sentiment for equities.
- FICC: Record-high volumes to drive outperformance.** Driven by record-high volumes for both commodities and foreign exchange, we expect 1HFY24 FICC overall segmental revenue to surge by 36% yoy to S\$210m from higher T&C revenue (+29% yoy) and treasury income, becoming SGX's largest revenue contributor. Moving forward, we reckon that revenue from the FICC segment will continue its upward momentum, driven by China's reopening and an increasingly uncertain macro-economic outlook.
- Data, connectivity and indices: Stable contributor.** We expect 1HFY24 revenue from this segment to stay relatively stable, growing around 3% yoy.

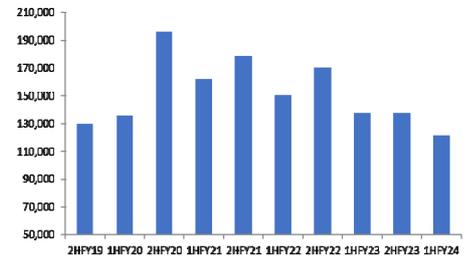
EARNINGS REVISION/RISK

- We make slight downward adjustments to our FY24-26 adjusted PATMI forecasts,** on the back of lower cash equity value and equity derivative volume assumptions. For FY24-26, we have adjusted our adjusted PATMI estimates to S\$543.4m (S\$545.0m previously) and S\$555.8m (S\$568.4m previously) and S\$560.6m (S\$581.9m previously) respectively.

VALUATION/RECOMMENDATION

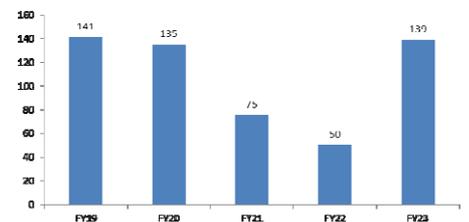
- Maintain HOLD with a slightly lower PE-based target price of S\$10.42 (S\$10.46 previously),** pegged to the same 21x PE multiple, -0.5SD to SGX's historical forward mean, to FY24 earnings.
- Despite robust growth from the FICC segment, we reckon that there are no near-term catalysts to justify a higher valuation. Higher treasury income from interest rate hikes has already started coming through, which we reckon has already been priced in. Despite a moderate yield of about 3.6%, we like still SGX for its resilient business model that benefits from the global economic uncertainty but recommend waiting for better entry points.

TOTAL ANNUAL SECURITIES TRADED VALUE (\$\$M)



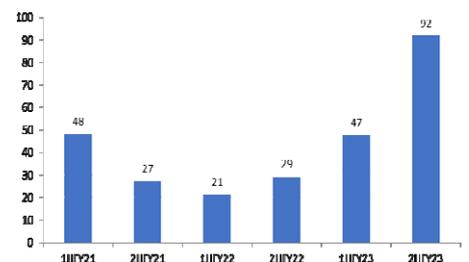
Source: Singapore Exchange, UOB Kay Hian

ANNUAL TREASURY INCOME (\$\$M)



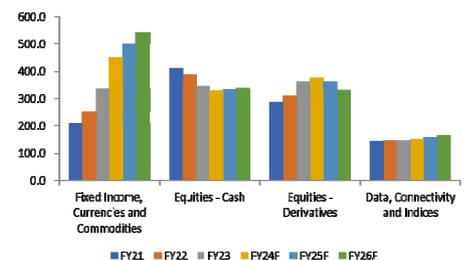
Source: Singapore Exchange, UOB Kay Hian

HALF-YEARLY TREASURY INCOME (\$\$M)



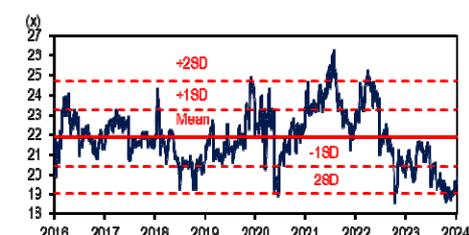
Source: Singapore Exchange, UOB Kay Hian

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)	2023	2024F	2025F	2026F
Net turnover	1,194.4	1,312.5	1,355.8	1,381.2
EBITDA	687.9	747.7	761.1	764.5
Deprec. & amort.	98.3	99.1	97.6	97.6
EBIT	589.5	648.6	663.5	667.0
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	650.7	665.6	671.4
Tax	(103.3)	(107.4)	(109.8)	(110.8)
Minorities	0.3	0.0	0.0	0.0
Net profit	570.9	543.4	555.8	560.6
Net profit (adj.)	503.2	543.4	555.8	560.6

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	979.9	1,181.5	1,430.2
Other current assets	1,402.2	1,512.0	1,552.3	1,576.0
Total assets	3,781.3	4,054.2	4,257.9	4,492.1
ST debt	351.9	351.9	351.9	351.9
Other current liabilities	1,286.5	1,389.9	1,422.6	1,491.6
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	1,870.2	2,041.3	2,206.5
Minority interest	2.7	2.7	2.7	2.7
Total liabilities & equity	3,781.3	4,054.2	4,257.9	4,492.1

CASH FLOW

Year to 30 Jun (\$m)	2023	2024F	2025F	2026F
Operating	446.7	651.6	661.3	719.1
Pre-tax profit	689.4	666.3	681.2	687.0
Tax	(98.9)	(107.4)	(109.8)	(110.8)
Deprec. & amort.	98.3	99.1	97.6	97.6
Working capital changes	(161.7)	(6.4)	(7.6)	45.4
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	202.6	201.6	248.7
Beginning cash & cash equivalent	752.2	777.3	979.9	1,181.5
Changes due to forex impact	(1.0)	0.0	0.0	0.0
Ending cash & cash equivalent	777.3	979.9	1,181.5	1,430.2

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	57.6	57.0	56.1	55.4
Pre-tax margin	56.4	49.6	49.1	48.6
Net margin	47.8	41.4	41.0	40.6
ROA	15.0	13.9	13.4	12.8
ROE	35.2	30.4	28.4	26.4
Growth				
Turnover	8.7	9.9	3.3	1.9
EBITDA	8.5	8.7	1.8	0.5
Pre-tax profit	23.7	(3.4)	2.3	0.9
Net profit	26.5	(4.8)	2.3	0.9
Net profit (adj.)	11.5	8.0	2.3	0.9
EPS	11.4	8.0	2.3	0.9
Leverage				
Debt to total capital	28.9	27.0	25.3	23.8
Debt to equity	40.7	37.0	33.9	31.4
Net debt/(cash) to equity	(5.0)	(15.4)	(24.0)	(33.5)

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