

MITA No. 010/06/2008

16 April 2009

Singapore Exchange Ltd

Maintain

HOLD

Previous Rating: HOLD

Too early to call for a recovery

\$S\$6.21

Fair Value: \$S\$5.60

Stock Code:

Reuters: SGXL.SI

ISIN Code: S68

Bloomberg: SGX SP

Event:

Results

General Data

| | |
|------------------------|--------------------|
| Issued Capital (m) | 1,069 |
| Mkt Cap (S\$m/US\$m) | 6,639/4,425 |
| Major Shareholder | SEL Hldgs (24%) |
| Free Float (%) | 51 |
| NAV per share (S\$) | 0.64 |
| Daily Vol 3-mth ('000) | 6,954 |
| 52Wk High (S\$) | 9.620 |
| 52Wk Low (S\$) | 4.000 |

3Q earnings fell as expected. Singapore Exchange Ltd's (SGX) 3Q net earnings of S\$55.3m (-46% YoY and -26% QoQ) came in exactly in line with our expectation of S\$55.9m. Revenue fell 31% YoY and 18% QoQ to S\$119.8m, also in line with our expectation of S\$119.2m. There were no surprises in SGX's 3Q performance as there were already indications of weaker quarterly performance. Securities Market revenue plunged 43% YoY and 21% QoQ to S\$55.3m. Derivatives Revenue fell 20% YoY and 27% QoQ to S\$31.2. Even its Stable Revenue was not spared and fell 3% QoQ to S\$33.3m. What was heartening was the drop in operating expenses (-3% QoQ) and the 9% QoQ decline in total staff costs. However, this was partially offset by higher depreciation expenses. Management has declared a 3Q dividend of 3.5 cents to be paid on 14 May 2009 (note the book closure date is 4 May 2009)

Too early to call for a recovery. Average daily volume on the Securities Market was around 1 bn units in Jan-Mar 2009, but has since picked up during the first two weeks of April to 1.76 bn. Average daily traded value has also improved from S\$947 bn to S\$1300 bn. However, it is still too early to call for a recovery as uncertainties still loom. While some indicators have shown signs of bottoming-out, our view remains that a sustained economics recovery is necessary for confidence to return to the market. As such, we are unlikely to see a return to the peak volumes seen in mid-2007 any time soon.

Retain FY09 estimates. As the 3Q numbers came in within our expectations, we are retaining our FY09 earnings forecast of S\$280.4m or 4Q earnings of S\$65.9m (up 19.2% from 3Q). Management outlined that SGX will continue to grow the domestic derivatives (including extended settlement contracts) and the options markets. On the operational side, cost containment will continue to be a key focus. On the business side, corporate activities and capital market exercises remained slow. As the decline in global equity markets has stabilised for now, the outlook is better than 3 months ago and we are also raising our valuation to 20x (to be in line with peers as well as to account for better outlook compared to a quarter ago). Based on this, we are raising our fair value estimate to S\$5.60 (previous: S\$4.50). We retain our **HOLD** rating.

Carmen Lee

(65) 6531 9802

e-mail: carmen@ocbc-research.com

| Year to 30 Jun | Turnover (S\$m) | EBIT (S\$m) | PAT (S\$m) | EPS (cents) | PER (x) | Net DPS (cents) | Net Div Yield (%) |
|-------------------|--------------------|----------------|---------------|----------------|------------|--------------------|----------------------|
| FY 07* | 576.2 | 365.2 | 421.8 | 40.8 | 15.2 | 36.0 | 5.8 |
| FY 08* | 768.6 | 529.0 | 478.3 | 44.7 | 13.9 | 38.0 | 6.1 |
| FY 09F | 556.0 | 341.7 | 280.4 | 26.2 | 23.7 | 22.0 | 3.5 |
| FY 10F | 600.1 | 384.3 | 315.5 | 29.5 | 21.0 | 25.0 | 4.0 |

* Note: Included one-off from SGX Centre in FY07 and distribution from SGX-DT Compensation Fund in FY08

Please refer to the important disclosures at the back of this document.

Exhibit 1: 3Q Financial Highlights

| Y/E: Jun 30 | 3QFY08 | 3QFY09 | YoY | QoQ | 9MFY08 | 9MFY09 | YoY |
|------------------------------------|--------------|--------------|---------|--------|--------------|--------------|---------|
| Operating Revenue | 173.3 | 119.8 | -30.9% | -18.3% | 596.5 | 424.8 | -28.8% |
| - Securities market revenue | 96.3 | 55.3 | -42.6% | -20.6% | 359.4 | 199.3 | -44.6% |
| - Net derivatives clearing revenue | 39.0 | 31.2 | -19.9% | -27.0% | 114.9 | 120.2 | 4.6% |
| - Stable revenue | 38.0 | 33.3 | -12.3% | -2.9% | 122.2 | 105.3 | -13.8% |
| Total revenue | 173.3 | 119.8 | -30.9% | -44.6% | 596.5 | 424.8 | -28.8% |
| Operating Expenses | 53.7 | 54.2 | 0.9% | -2.9% | 172.7 | 163.4 | -5.4% |
| - Staff costs | 25.5 | 22.3 | -12.5% | -8.8% | 86.9 | 70.5 | -18.9% |
| - Occupancy costs | 4.4 | 4.2 | -3.0% | -0.7% | 12.7 | 12.6 | -0.4% |
| - System maintenance & rental | 9.5 | 11.7 | 22.4% | 3.3% | 27.6 | 32.2 | 16.7% |
| - Depreciation | 2.0 | 5.3 | 162.5% | 12.5% | 8.7 | 13.5 | 53.8% |
| - Other expenses | 10.9 | 9.3 | -14.3% | 1.7% | 32.6 | 29.8 | -8.6% |
| - Others | 1.4 | 1.4 | -2.1% | -28.4% | 4.2 | 4.8 | 14.2% |
| Operating Profit | 119.6 | 65.6 | -45.1% | -27.8% | 423.8 | 261.4 | -38.3% |
| Net non-operating income | 5.5 | 13.2 | 138.7% | 250.6% | 11.0 | 21.1 | 91.8% |
| Others | -0.7 | 0.0 | -100.0% | nm | 33.3 | 0.0 | -100.0% |
| Pretax Profit | 124.4 | 65.1 | -47.6% | -28.7% | 467.6 | 259.7 | -44.5% |
| Net Profit | 101.5 | 55.3 | -45.5% | -25.9% | 388.0 | 214.5 | -44.7% |

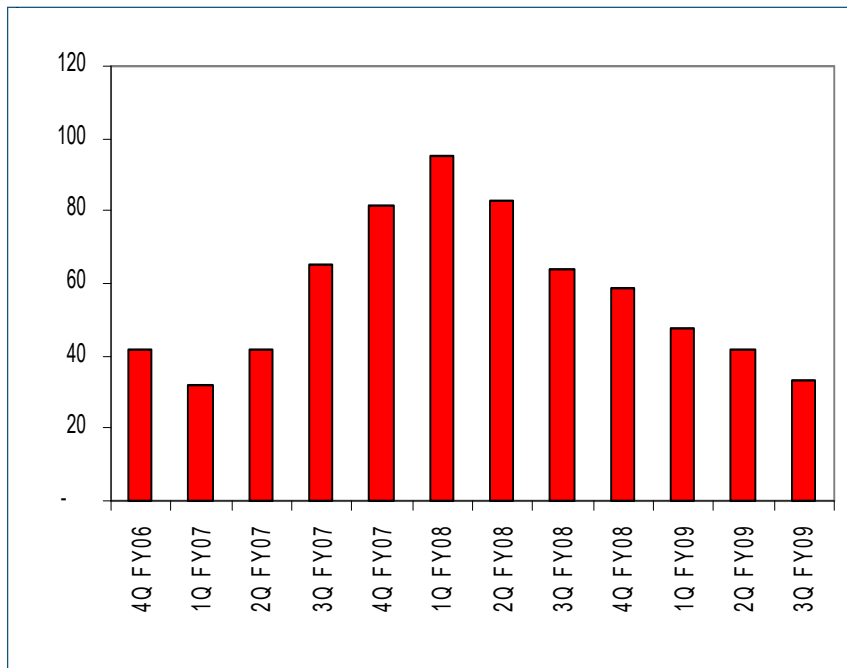
Source: Company

Exhibit 2: Key Market Data

| Securities Market Data | 1Q FY08 | 2Q FY08 | 3Q FY08 | 4Q FY08 | 1Q FY09 | 2Q FY09 | 3Q FY09 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Clearing Fee (\$m) | 95.3 | 83.1 | 63.8 | 59.0 | 47.8 | 41.8 | 33.0 |
| Trading Value | | | | | | | |
| - Full quarter (\$b) | 165.7 | 149.3 | 116.1 | 101.9 | 83.5 | 63.9 | 55.8 |
| - Daily average (\$b) | 2.59 | 2.37 | 1.90 | 1.62 | 1.27 | 1.03 | 0.91 |
| Trading Volume | | | | | | | |
| - Full quarter (b) | 169.3 | 108.6 | 77.5 | 68.4 | 53.9 | 61.9 | 54.1 |
| - Daily average (b) | 2.65 | 1.72 | 1.27 | 1.09 | 0.82 | 1.00 | 0.89 |
| No of IPOs | | | | | | | |
| - Foreign IPOs | 21.0 | 21.0 | 9.0 | 9.0 | 10.0 | 2.0 | 2.0 |
| - Foreign IPOs | 16.0 | 14.0 | 5.0 | 7.0 | 5.0 | 2.0 | 1.0 |
| Funds raised via IPOs | | | | | | | |
| - Total (\$b) | 1.9 | 2.9 | 0.7 | 0.7 | 0.3 | 0.1 | 0.0 |
| - Average per IPO (\$m) | 88.8 | 140.3 | 74.8 | 79.9 | 27.6 | 70.2 | 6.4 |
| Market Capitalisation of IPOs | | | | | | | |
| - Total (\$b) | 5.0 | 9.3 | 3.3 | 3.8 | 1.5 | 0.7 | 0.1 |
| - Average per IPO (\$m) | 239.7 | 444.1 | 364.7 | 417.9 | 150.9 | 335.6 | 41.7 |
| Net Derivatives Clearing Revenue | | | | | | | |
| Futures Clearing Revenue | 31.8 | 32.3 | 34.4 | 37.8 | 43.3 | 40.5 | 29.5 |
| Structured Warrants Clearing Revenue | 5.5 | 6.3 | 4.6 | 3.6 | 2.8 | 2.3 | 1.7 |
| Total (\$m) | 37.3 | 38.6 | 39.0 | 41.4 | 46.1 | 42.8 | 31.2 |
| Futures Data | | | | | | | |
| Clearing Revenue (\$m) | 31.8 | 32.3 | 34.4 | 37.8 | 43.3 | 40.5 | 29.5 |
| Trading Volume (m contracts) | | | | | | | |
| - Asian Equity Derivatives | 11.4 | 11.3 | 14.2 | 13.9 | 17.0 | 15.1 | 11.5 |
| - Euroyen | 0.4 | | 0.2 | 0.2 | | | |
| - Others | 0.5 | 0.7 | 0.4 | 0.3 | 0.4 | 0.1 | 0.3 |
| Total | 12.3 | 12.0 | 14.8 | 14.4 | 17.4 | 15.2 | 11.8 |
| Structured Warrants Data | | | | | | | |
| Clearing Revenue (\$m) | 5.5 | 6.3 | 4.6 | 3.6 | 2.8 | 2.3 | 1.7 |
| Trading Value (\$b) | 7.5 | 9.9 | 7.1 | 6.0 | 4.1 | 4.0 | 2.7 |
| Trading Volume (b) | 31.4 | 34.5 | 26.9 | 21.6 | 16.0 | 10.5 | 9.3 |
| No of new issues | 459 | 526 | 422 | 294 | 241 | 227 | 161 |

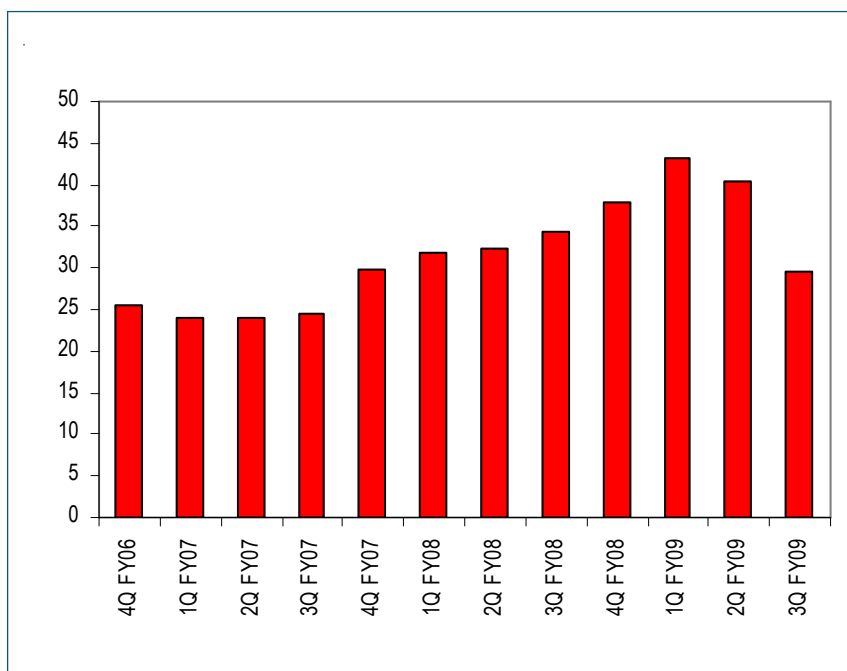
Source: Company

Exhibit 3: Securities Market Clearing Fee (S\$m)



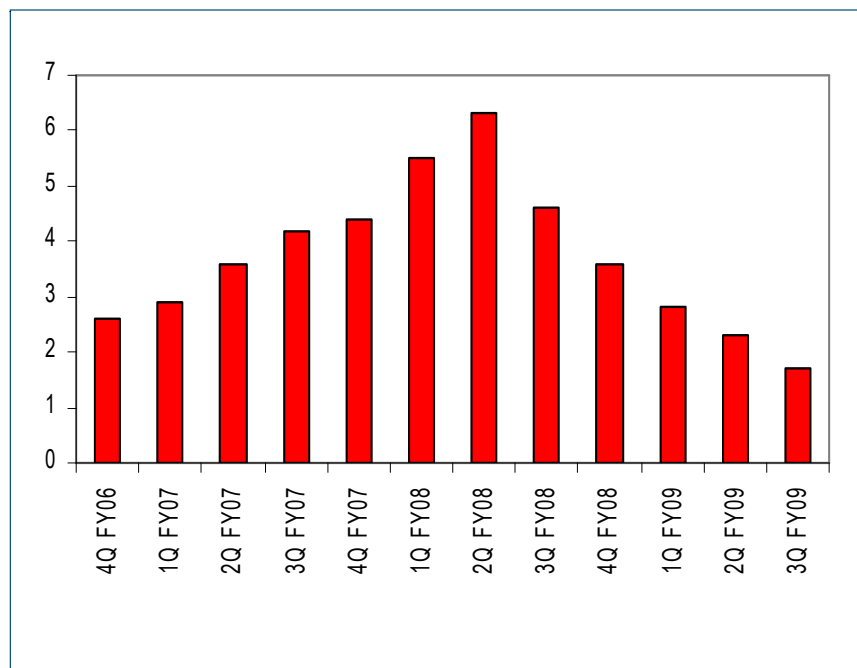
Source: Company

Exhibit 4: Futures Clearing Revenue (S\$m)



Source: Company

Exhibit 5: Structured Warrant Clearing Revenue (S\$m)



Source: Company

Exhibit 6: Peer Comparison

| | Curr | Last Done | P/Bk | PER | PER 1 | PER 2 | Div Yield | Mkt Cap |
|--------------------|------|-----------|------------|-------------|-------------|-------------|------------|---------|
| | | (\$) | (x) | (x) | (x) | (x) | (%) | (\$m) |
| Singapore Exchange | SGD | 6.21 | 10.0 | 21.7 | 23.3 | 22.2 | 6.4 | 6,639 |
| Hong Kong Exchange | HKD | 91.40 | 13.5 | 19.1 | 27.5 | 24.4 | 4.7 | 19,067 |
| Bursa Malaysia | MYR | 6.00 | 4.3 | 30.2 | 35.1 | 29.0 | 4.1 | 1,316 |
| ASX | AUD | 31.90 | 2.0 | 15.6 | 16.9 | 17.7 | 8.3 | 5,905 |
| Average | | | 7.5 | 21.7 | 25.7 | 23.3 | 5.9 | |

Source: Bloomberg

SGX's Key Financial Data

EARNINGS FORECAST

| Year Ended 30 Jun (S\$ m) | FY07 | FY08 | FY09F | FY10F |
|--|--------------|--------------|--------------|--------------|
| Securities Market Revenue | 326.0 | 449.6 | 247.0 | 260.9 |
| - Securities clearing fee | 220.9 | 301.2 | 160.0 | 177.0 |
| - Securities related processing income | 47.9 | 68.1 | 46.3 | 45.0 |
| - Access Fees | 57.2 | 80.3 | 40.7 | 38.9 |
| Net derivatives clearing fee | 117.0 | 156.3 | 172.2 | 192.9 |
| Stable Revenue | 133.3 | 162.7 | 136.8 | 146.3 |
| Revenue | 576.2 | 768.6 | 556.0 | 600.1 |
| Operating expenses | 211.1 | 239.6 | 214.3 | 215.8 |
| Operating profit | 365.2 | 529.0 | 341.7 | 384.3 |
| Pre-tax profits | 490.3 | 575.5 | 342.0 | 384.8 |
| Net Profits | 421.8 | 478.3 | 280.4 | 315.5 |
| Net Profits, excluding one-off items | 311.3 | 444.3 | 280.4 | 315.5 |
| EPS (cents) | 40.8 | 44.7 | 26.2 | 29.5 |
| Net DPS (cents), base | 8.0 | 12.0 | 14.0 | 14.0 |
| Net DPS (cents), base+variable+special dvd | 36.0 | 38.0 | 22.0 | 25.0 |
| Key Ratios | | | | |
| Revenue growth (%) | 41.4% | 33.4% | -27.7% | 7.9% |
| Pre-tax growth (%) | 107.7% | 17.4% | -40.6% | 12.5% |
| Net Profit growth (%) | 124.8% | 13.4% | -41.4% | 12.5% |

| BALANCE SHEET | | | | |
|--|--------------|--------------|--------------|--------------|
| As at 30 Jun (S\$ m) | FY07 | FY08 | FY09F | FY10F |
| Share capital | 398.5 | 409.9 | 414.3 | 414.3 |
| Others | 431.8 | 484.1 | 442.1 | 520.5 |
| Shareholders' Funds | 830.4 | 893.9 | 856.4 | 934.8 |
| Fixed assets | 149.0 | 189.0 | 165.1 | 180.3 |
| Current assets | 1,702.3 | 1,741.1 | 1,555.3 | 1,679.2 |
| Current liabilities | -1,018.5 | -1,033.5 | -862.2 | -923.7 |
| Long-term liabilities | -2.5 | -2.6 | -1.8 | -1.0 |
| Assets less Liabilities | 830.4 | 893.9 | 856.4 | 934.8 |
| CASH FLOW | | | | |
| Year Ended 30 Jun (S\$ m) | FY07 | FY08 | FY09F | FY10F |
| Pretax profits | 492.8 | 576.1 | 342.0 | 384.8 |
| Depreciation | 16.3 | 12.1 | 15.3 | 15.6 |
| Others | -121.9 | -36.4 | -0.5 | -0.5 |
| Changes in working capital | 11.7 | 26.2 | 33.0 | 0.0 |
| Operating cash flow | 398.9 | 578.1 | 389.8 | 399.9 |
| Net cash from operating activities | 354.6 | 506.2 | 328.2 | 330.7 |
| Net cash used in investing activities | 204.1 | 91.8 | 30.0 | 15.0 |
| Cash flow from financing activities | -191.1 | -389.6 | -250.2 | -282.2 |
| Change in cash/(debt) | 367.7 | 208.4 | 108.1 | 63.4 |
| End cash/(debt) | 523.7 | 647.6 | 755.6 | 819.1 |

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

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Carmen Lee
Head of Research

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