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SINGAPORE EQUITY
Investment Research

DMG & Partners SECURITIES

Corporate Update

Private Circulation Only

FINANCE

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SGX

SELL	**Maintain**
Price	**S$4.73**
Target	**S$3.95**

Sharp decline in Nov stockmarket turnover value

Stock Profile/Statistics

Bloomberg Ticker	SGX SP
STI	1665.6
Issued Share Capital (m)	1068.9
Market Capitalisation (S$m)	5056.0
52 week H L Price (S$)	15.70 | 4.15
Average Volume (3m) '000	11571.9
YTD Returns (%)	-64.8
Net gearing (x)	Net cash
Altman Z-score	NA
Beta	1.44
ROCE/WACC	2.49
Book Value/share (S¢)	87.1

Major Shareholders (%)

SEL Holdings	23.5%

Share Performance (%)

Month	Absolute	Relative
1m	-10.9%	0.4%
3m	-27.8%	12.2%
6m	-47.6%	1.0%
12m	-63.6%	-12.8%

6-month Share Price

Nov stockmarket turnover value is down sharply. Average daily stockmarket turnover value was S$1.06b for the first 12 trading days of Nov 08 – a sharp 20% plunge from the S$1.40b for Oct 08. Concerns on global economic weakness and lack of investor interest have contributed to this trend. The average value per share traded has also fallen sharply from S$1.24 in Sep 08 to only S$0.78 in the first part of Nov 08 – we attribute this to the recent sharp fall in share prices which lowered market capitalization from end-Sep 08's S$506b to end-Oct 08's S$383b. We expect stockmarket turnover value to remain weak over the next few months, and have therefore cut both our FY09 and FY10 ADT assumptions by 11% to S$1.19b and S$1.24b respectively.

Futures turnover remain robust. Oct 08 futures trading volume of 6.84m is 86% higher YoY, driven by the Nikkei 225 Index & the CNX Nifty Index futures trading. We believe this strength can persist and have raised our assumption of FY09 & FY10 futures turnover volume both by 7% to 72m & 75m respectively.

Earnings forecasts reduced. Factoring in the above two developments, we are lowering our FY09 and FY10 net profit forecasts by 7% and 8% to S$315.7m and S$323.9m respectively. We believe more market players will cut their earnings forecasts and therefore expect the current consensus expectations of S$335.3m and S$382.5m (for FY09 and FY10 respectively) to fall closer to our forecasts over the next few weeks.

Target price cut from S$5.20 to S$3.95. Given the recent P/E compression across all sectors, we have reviewed our assumptions for SGX target price. Our new target price of S$3.95 is pegged to 13x FY10 P/E – lower than the 16x P/E which we adopted earlier. This target P/E rating is close to the level recorded in FY05, when ADT fell 14.5% YoY. Our sensitivity analysis shows that market players are assuming an ADT exceeding S$1.62b based on the current share price of SGX – a level which we feel is unachievable over the next few quarters.

FYE Jun (S$m)	FY06	FY07	FY08	FY09F	FY10F
Turnover	407.6	576.2	768.6	602.0	627.8
Net Profit	187.6	421.8	478.3	315.7	323.9
% chg YoY	79.8%	124.8%	13.4%	-34.0%	2.6%
EPS (S¢)	18.0	40.0	45.1	29.6	30.4
DPS (S¢)	16.2	36.0	38.0	26.6	27.3
Div Yield	3.4%	7.6%	8.0%	5.6%	5.8%
ROE	32.0%	37.5%	49.7%	34.7%	34.4%
ROA	18.9%	22.2%	25.3%	16.3%	16.6%
P/E (x)	26.3	11.8	10.5	16.0	15.6
P/B (x)	8.5	6.0	5.6	5.5	5.3

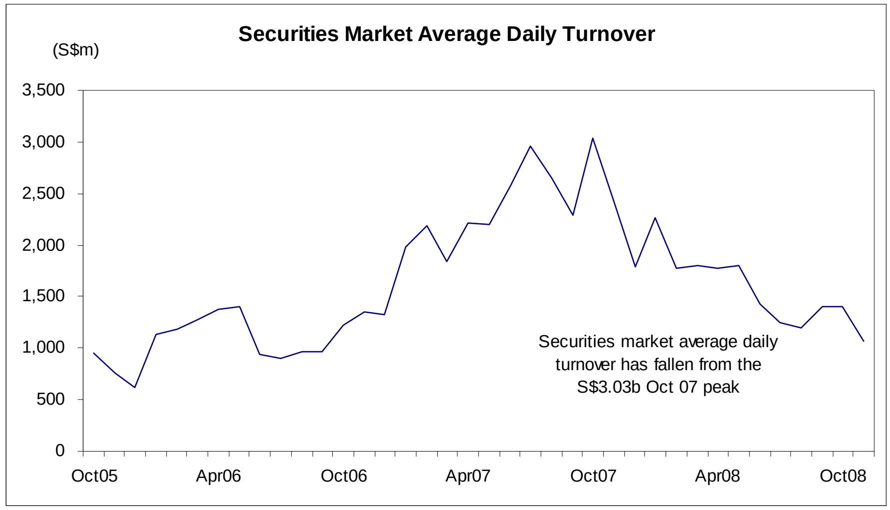
Source: Company & DMG estimates

Figure 1: Profit & Loss (S$m)

Year End: Jun	FY06	FY07	FY08	FY09F	FY10F
Turnover	407.6	576.2	768.6	602.0	627.8
EBITDA	251.5	381.5	540.4	384.0	394.0
Depreciation	(14.3)	(16.3)	(12.1)	(19.0)	(20.0)
Interest & other income	2.7	6.4	16.2	18.0	19.0
Investment Income	10.5	10.7	(2.4)	2.0	2.0
Associated Companies	(0.9)	(2.5)	(0.6)	0.0	0.0
Exceptional item	0.0	110.5	34.0	0.0	0.0
EBIT	237.2	365.1	528.3	365.0	374.0
Pre-tax Profit	236.1	490.3	575.5	385.0	395.0
Tax	(48.5)	(68.6)	(97.2)	(69.3)	(71.1)
Net Profit	187.6	421.8	478.3	315.7	323.9
Book/sh (cts)	55.9	78.2	83.8	86.7	89.8
Div Payout (x)	0.90	0.90	0.84	0.90	0.90
Growth (%)					
Turnover	48.4	41.4	33.4	(21.7)	4.3
EBITDA	67.8	51.7	41.7	(28.9)	2.6
Pre-tax Profit	75.4	107.7	17.4	(33.1)	2.6
Net Profit	79.8	124.8	13.4	(34.0)	2.6
Profitability (%)					
EBITDA Margin	61.7	66.2	70.3	63.8	62.8
Pre-tax Margin	57.9	85.1	74.9	64.0	62.9
Net Margin	46.0	73.2	62.2	52.4	51.6
Operating Revenue					
Clearing fees (net of rebates)	234.4	337.8	457.5	339.0	357.0
- Securities clearing fees	138.8	220.9	301.2	156.0	160.0
- Derivatives clearing fees	95.6	117.0	156.3	183.0	197.0
Access & terminal fees	50.4	74.9	102.8	78.0	78.8
A/C maintenance & processing	55.3	83.1	110.0	92.0	96.0
Listing and membership fees	33.1	38.5	51.0	48.0	48.0
Price information fees	19.1	23.0	28.8	27.0	28.0
Software & computer services	7.5	10.1	11.0	10.0	11.0
Others	7.8	8.8	7.3	8.0	9.0
Total	407.6	576.2	768.6	602.0	627.8
Futures turnover (units)(m)	33.9	37.4	53.5	72.0	75.0
Stock-market turnover (S$b)					
(incl structured warrants)	267.5	418.7	563.5	297.0	311.0
ADT (S$b)					
(incl structured warrants)	1.07	1.67	2.25	1.19	1.24

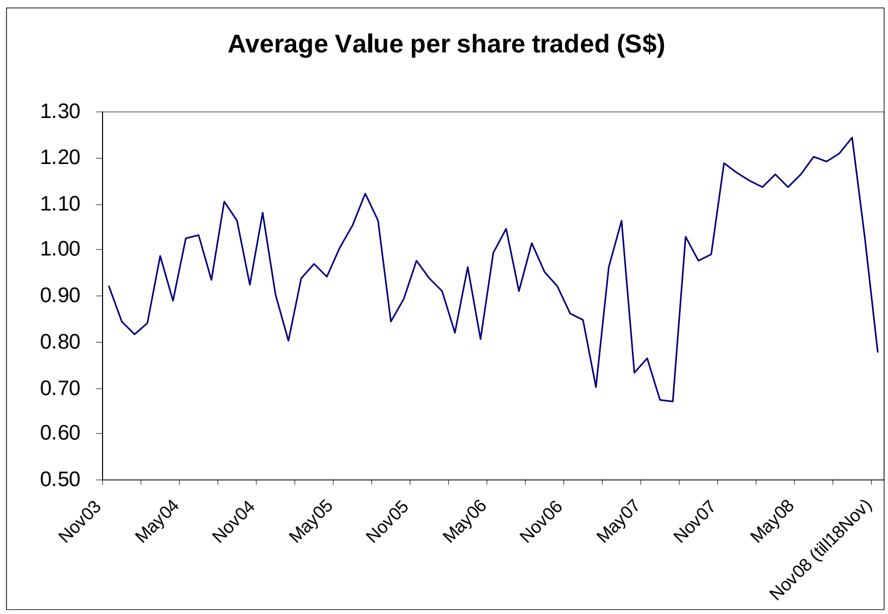
Source: Company & DMG estimates

Figure 2: Weakness For Securities Market Turnover



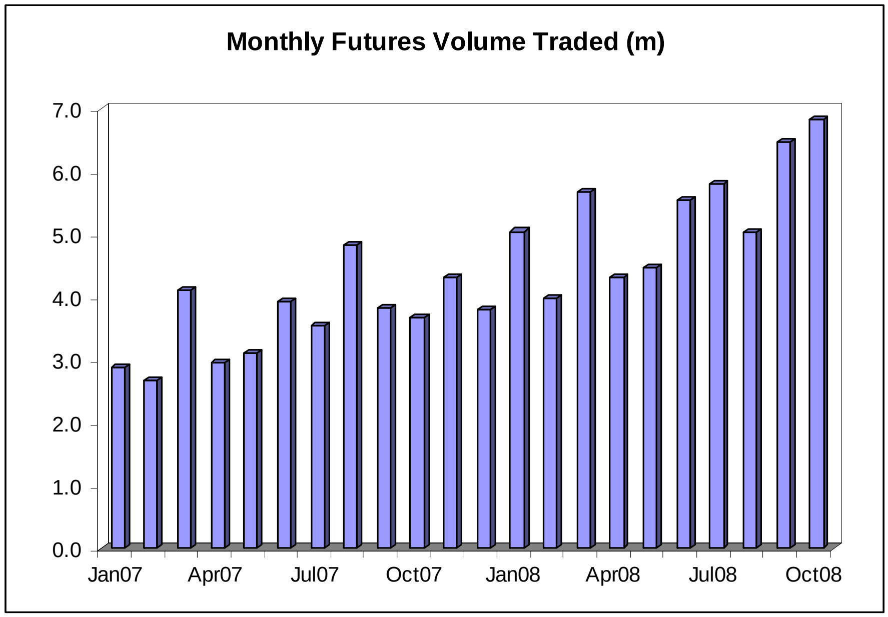
Source: Bloomberg

Figure 3: Plunge In Average Value Per Share Traded



Source: Bloomberg

Figure 4: Futures Volume Trading Remain Robust



Source: SGX

Figure 5: Earnings Sensitivity To Stockmarket Turnover

	FY10F					
Stockmarket turnover % rise over base case	Base case	10	20	30	(10)	(20)
Avg Daily Stockmarket turnover (S$b)	1.24	1.37	1.49	1.62	1.12	1.00
Revenue (S$m)	627.8	650.6	673.4	696.2	605.0	582.2
Net profit (S$m)	323.9	340.6	357.3	374.1	307.2	290.5
EPS (S¢)	30.4	31.9	33.5	35.1	28.8	27.2
Target PE rating	13	13	13	13	13	13
Target Price (S$)	3.9	4.1	4.4	4.6	3.7	3.5

Source : DMG estimates

Figure 6: SGX traded at mid-teens P/E in 2005

Source : Bloomberg

Figure 7: Securities Market Turnover Contracted in FY05

	ADT (S$m)	YoY% chg
FY04	755	100.3
FY05	645	(14.5)
FY06	1,039	61.0
FY07	1,630	56.8
FY08	2,184	34.0

Source : Bloomberg

Figure 8: Profit & Loss (S$m)(Quarterly)

Year End : Jun	1QFY08	1QFY09
Turnover	219.7	158.2
EBITDA	160.8	108.4
Depreciation	(3.7)	(3.5)
Interest & other income	3.3	(1.6)
Associated Companies	(0.4)	(0.1)
EBIT	157.1	104.8
Pre-tax Profit	160.0	103.2
Tax	(30.0)	(18.7)
Net Profit	130.0	84.5
Operating Revenue		
Clearing fees (net of rebates)	132.6	94.0
- Securities clearing fees	95.3	47.8
- Derivatives clearing fees	37.3	46.1
Access & terminal fees	30.9	18.2
A/C maintenance & processing fees	31.2	22.9
Listing and membership fees	11.6	12.4
Price information fees	7.5	7.8
Software & computer services	3.0	2.2
Others	2.8	0.8
Total	219.7	158.2

Source : Company

Figure 9: Cash Flow (S$m)

Year End: Jun	FY06	FY07	FY08	FY09F	FY10F
Cash flow from operating activities					
Profit before tax & share of JV	237.1	492.8	576.1	385.0	395.0
Adjustments for :					
- Depreciation	14.3	16.3	12.1	19.0	20.0
- Loss (gain) on investment	(10.3)	(10.8)	2.4	0.0	0.0
- Share based expense	4.2	8.6	9.5	4.0	4.0
- Interest income	(5.1)	(9.5)	(15.4)	(18.0)	(19.0)
- Others	2.2	(110.3)	(32.9)	0.0	0.0
Operating CF before WC	242.4	387.2	551.9	390.0	400.0
- Trade & other receivables	211.5	(617.8)	40.1	(14.0)	29.0
- Trade & other payables	(196.5)	629.5	(13.9)	34.0	(10.0)
- Income tax paid	(30.3)	(44.3)	(71.9)	(69.3)	(71.1)
- Dividends paid	0.0	0.0	0.0	0.0	0.0
Net CF from operations	227.2	354.6	506.2	340.7	347.9
Cash flow from investing activities					
- Payments for PPE	(18.5)	(14.5)	(45.8)	(23.0)	(25.0)
- Interest received	4.8	9.4	14.4	18.0	19.0
- Investments' sale	77.5	19.9	130.5	0.0	0.0
- Others	(81.9)	189.3	(7.3)	0.0	0.0
Net CF from investing	(18.0)	204.1	91.8	(5.0)	(6.0)
Cash flow from financing activities					
- Issue of ordinary shares	12.3	17.5	9.3	0.0	0.0
- Dividends paid	(91.9)	(186.2)	(413.8)	(373.5)	(284.1)
- Contributions from MI	(1.5)	(22.4)	15.0	0.0	0.0
Net CF from financing	(81.1)	(191.1)	(389.6)	(373.5)	(284.1)
Net increase / (decrease)	128.1	367.7	208.4	(37.8)	57.8
Cash at the beginning	117.9	246.0	613.7	822.1	784.3
Effects of exch rate changes	0.0	0.0	0.0	0.0	0.0
Cash at period end	246.0	613.7	822.1	784.3	842.1

Source: Company & DMG estimates

Figure 10: Balance Sheet (S$m)

Year End: Jun	FY06	FY07	FY08	FY09F	FY10F
Fixed assets	228.2	70.4	103.6	107.6	112.6
Other non-current assets	4.6	78.6	85.4	86.0	88.0
Current Assets					
Trade Debtors	290.0	913.0	877.9	891.9	862.9
Bank Deposits & Cash	246.0	613.7	822.1	784.3	842.1
A/C under fund management	151.9	138.7	3.1	3.1	3.1
Others	36.7	37.0	38.0	60.0	57.0
Total current assets	724.5	1,702.3	1,741.1	1,739.3	1,765.1
Total assets	957.3	1,851.4	1,930.1	1,932.9	1,965.6
Current Liabilities					
Trade Creditors	296.0	921.8	910.9	944.9	934.9
Others	70.8	96.7	122.6	57.5	65.8
Total current liabilities	366.8	1,018.5	1,033.5	1,002.4	1,000.7
Long term liabilities	3.6	2.5	2.6	5.0	7.0
Share capital	378.5	398.5	409.9	409.9	409.9
Reserves	208.4	431.8	484.1	515.6	548.0
Total shareholders funds	586.9	830.4	893.9	925.5	957.9
Minority interests	0.0	0.0	0.0	0.0	0.0
Total liabilities & equity	957.3	1,851.4	1,930.1	1,932.9	1,965.6

Source: Company & DMG estimates

DMG & Partners Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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