

Moscow Exchange

9M2020 results review

► **Moscow Exchange (MOEX) reports a strong fee income for 9M20.**

The company's fee and commission (F&C) income grew 30% YoY to RUB8,321mn in 3Q20. The operating income was up 6% YoY despite declining Net Interest Income (NII) following interest rates cut. Net profit increased by 2.7% YoY to RUB5,598.6mn in 3Q20. F&C reached RUB24,221.7mn in 9M20, up 27% YoY while Interest and other finance income were up 9% YoY to RUB11,398.8mn in 9M20. In the first nine months of the year, the operating income of MOEX reached RUB35,324mn, up 10% YoY. The company demonstrated good control over operating expenses which added 5.7% YoY to RUB12,039mn, while net income was up 27% YoY in 9M20 to RUB18,323mn. The trading volumes increase was 100% YoY in Stocks, DRs, and mutual funds market, 10% YoY in the Bond market, 23% YoY in the Money market, 6% YoY in the Credit market, 1% YoY in the FX market, and 49% YoY in the Derivatives market in January-September 2020. The trading activity increased due to high market volatility across different asset classes boosting the trading activity of retail and corporate investors. The number of retail investors reached 7.4mn as of October 2020 with the number of Individual Investment Accounts over 3mn. Russian issuers completed several IPO/SPO deals, including IPOs of Sovcomflot (\$550mn deal) and Samolet (\$37mn). MOEX launched its Marketplace (Finuslugi) platform, which will be used to offer deposits and other financial products of third parties to a wider client base. MOEX launched trading in 20 foreign stocks targeting 30 more by YE2020.

► **Moscow Exchange strategy till 2024 assumes a 3-4% growth above GDP due to an increase in core market penetration.**

The MOEX financial platform, Financial products Marketplace and Corporate Marketplace shall help to reach the income growth target of 10% per annum. High volatility and available infrastructure helped MOEX to gain 27% YoY F&C income growth in 9M20. The previous extreme volatility period resulted in a 22% YoY F&C growth in 2014 and supported 14% YoY growth in 2015. Calming down markets will likely result in lower trading volumes in 2021-22, while the lower key rate of the Central Bank pressing down the Interest income of MOEX. We expect some 7-8% growth in F&C income achievable for the company in 2021-2024. Given the strong operating cost management, we expect some improvement in net margin and dividend yield.

► **We rate the Moscow Exchange BUY with a 12-months price target of RUB159/share.**

The company is moving ahead with its core strategic initiatives, developing infrastructure for the retail and corporate investment and financial services sector. We expect the Marketplace to gain its market share over the next two years, however, we do not include this income into our valuation model yet. The dividend policy based on a minimum 60% payout of net income and up to 100% of free cash flow is a positive sign for investors and may provide over 6% dividend yield, based on our estimates. We value the company at RUB362-466bn 12-months target market capitalization or RUB159-205 per share. The stock trades with a 30-34% discount to its EM peers and a 51-54% discount to global stock exchanges based on P/E2020-22. We rate the stock BUY. Key risks of MOEX include the expansion of sanctions, weak GDP dynamics, and a low disposable income on the back of COVID-19, which may have a long-term effect on the market.

Report date:	6 November 2020
Main exchange	MOEX
Rating	BUY
Price, RUB	137
Target price, RUB	159
MCap, RUB bn	316
Free float, %	62.8%

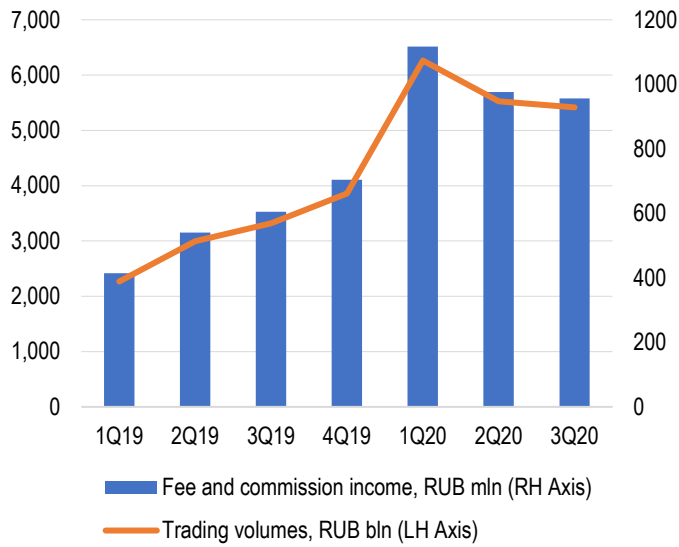
Description:

Moscow Exchange Group provides a unique platform for the Russian financial markets, including vertically-integrated infrastructure from pre-trading to the trading platform and post-trade services. Moscow Exchange integrates equities, bonds, derivatives, FX, commodities and money markets.

*as of 06/11/2020

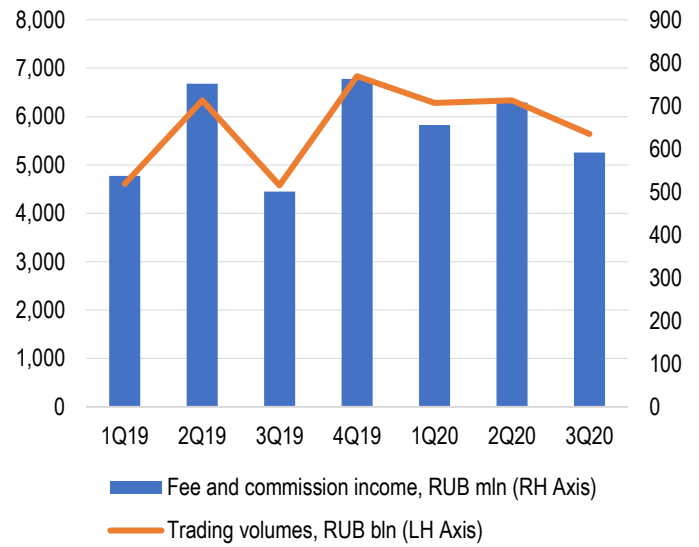
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Figure 1. Equities Market F&C income (RUB mn) and Trading volume (RUB bn)



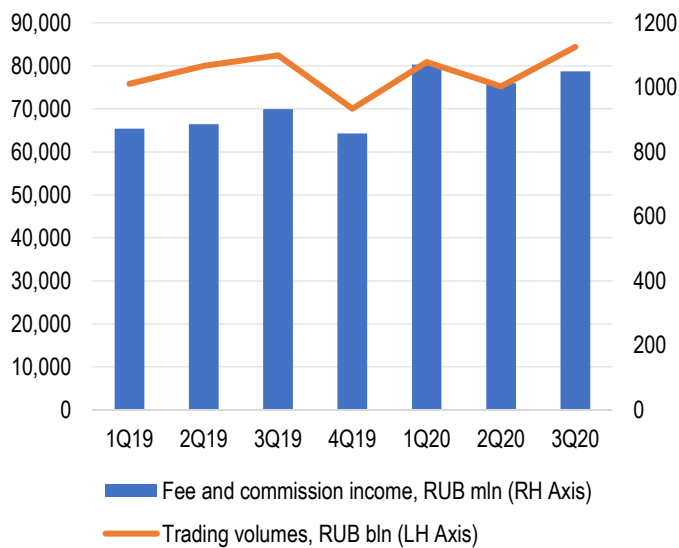
Source: Company data

Figure 2. Bond Market F&C income (RUB mn) and Trading volume (RUB bn)



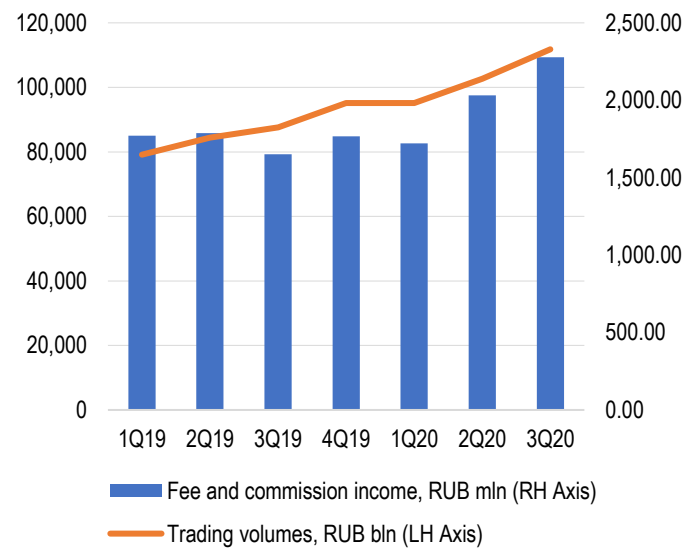
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Figure 3. FX Market F&C income (RUB mn) and Trading volume (RUB bn)



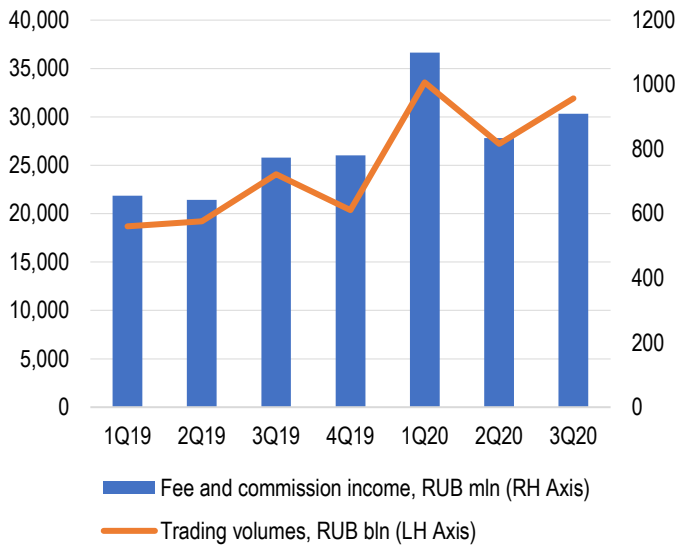
Source: Company data

Figure 4. Money Market F&C income (RUB mn) and Trading volume (RUB bn)



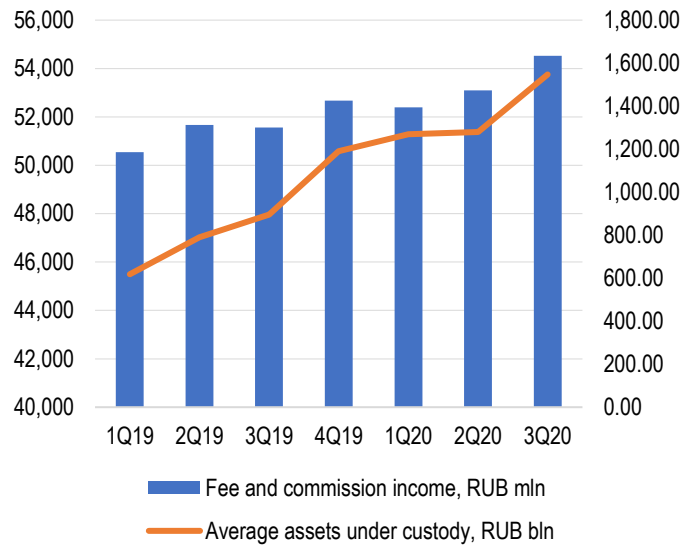
Source: Company data

Figure 5. Derivatives Market F&C income (RUB mn) and Trading volume (RUB bn)



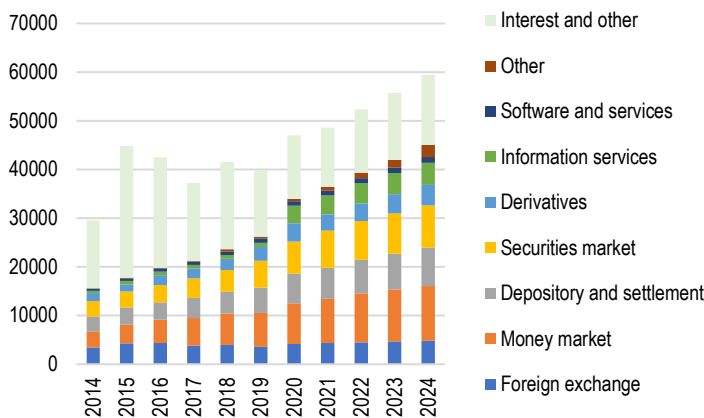
Source: Company data

Figure 6. Depository and Settlement Services F&C income (RUB mn) and Assets under custody (RUB bn)



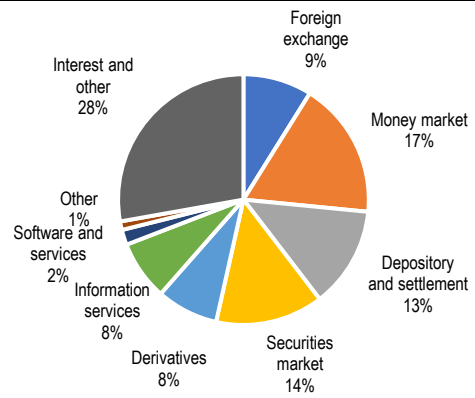
Source: Company data

Figure 7. MOEX income forecast, RUBmn



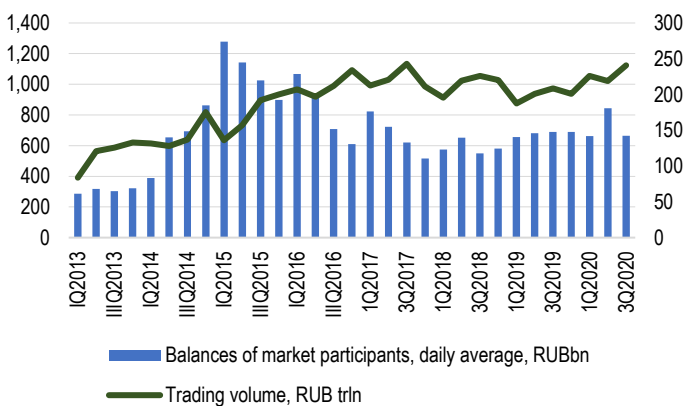
Source: Company data

Figure 8. MOEX income structure estimate, FY20



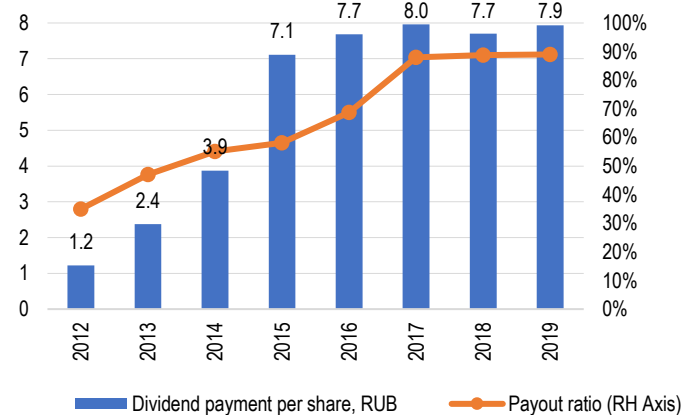
Source: Company data

Figure 9. Balances of market participants, daily average, RUBbn and trading volume, RUB trln



Source: Company data

Figure 10. Dividend per share and payout ratio of MOEX



Source: Company data

Figure 11. Moscow Exchange profit and loss statement, RUB mn

RUBmn	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fee and commission income	17784	19798	21208	23647	26181	33981	36430	39317	41985	45069
Interest and other finance income	27050	22731	16040	17932	13634	13079	12177	13064	13748	14420
Interest expense	-123	-119	-830	-447	-2919	-2059	-133	-140	-149	-157
Net loss on financial assets available-for-sale and at fair value through other comprehensive income	-281	1425	1016	262	1494	955	0	0	0	0
Foreign exchange gains less losses	1439	-342	1059	-1687	4504	180	0	0	0	0
Other operating income	121	75	46	193	335	150	140	150	158	166
Operating Income	45990	43567	38539	39901	43230	46286	48614	52391	55742	59498
Administrative and other operating expenses	-5489	-6312	-7279	-7941	-8321	-8178	-8446	-8697	-8953	-9188
Personnel expenses	-5783	-5947	-6153	-6512	-7114	-7974	-8293	-8583	-8883	-9150
Operating profit	34718	31308	25107	25448	27794	30134	31875	35111	37905	41161
Interest expense in respect of written put option over own shares	0	0	0	0	0	0	0	0	0	0
Share of profits of associates	1	0	0	0	0	0	0	0	0	0
Dividends received	0	0	0	0	0	0	0	0	0	0
Profit before tax	34719	31308	25107	24373	25179	29704	31875	35111	37905	41161
Income tax expense	-6867	-6125	-4852	-4652	-4979	-5874	-6303	-6943	-7495	-8139
Net profit	27852	25183	20255	19720	20201	23831	25572	28168	30410	33022
attributable to										
Equity holders of the parent	27909	25183	20266	19717	20189	23817	25558	28152	30393	33003
Non-controlling interest	-57	5	-11	4	12	14	15	16	17	19
EPS, rubles	12.5	11.2	9.0	8.8	9.0	10.5	11.2	12.4	13.3	14.5
DPS, RUB	7.1	7.7	8.0	7.7	7.9	7.9	8.5	9.4	10.1	11.0
Dividend payout	58%	69%	88%	89%	89%	76%	76%	76%	76%	76%

Source: Company data, Hypothesis Research estimates

Figure 12. Moscow Exchange Balance sheet, RUB mn

RUBmn	2016	2017	2018	2019	2020	2021	2022	2023	2024
Cash and cash equivalents	380,517	273,249	416,391	466,099	498,565	417,751	454,296	497,709	542,911
Financial assets at fair value though profit or loss	0	414	4,351	13,695	18,629	-	-	-	-
Due from financial institutions	63,843	63,607	95,378	60,424	84,852	76,101	84,436	89,502	94,427
Central counterparty financial assets	1,733,264	2,430,084	3,312,020	3,262,671	4,429,187	4,562,062	4,698,924	4,839,892	4,985,089
Investments available-for-sale	218,496	215,132	-	-	-	-	-	-	-
Property and equipment	7,706	6,636	5,974	5,447	6,444	6,681	6,977	7,272	7,557
Intangible assets	18,358	18,308	17,604	16,989	15,057	14,350	13,679	13,045	12,443
Goodwill	15,971	15,971	15,971	15,971	15,971	15,971	15,971	15,971	15,971
Current tax prepayments	52	307	506	1,482	2,104	2,253	2,389	2,532	2,671
Assets held for sale	-	-	-	105	-	-	-	-	-
Deferred tax asset	1,777	243	125	1,702	2,013	2,087	2,180	2,272	2,361
Other assets	1,954	3,819	3,511	4,696	4,640	4,969	5,268	5,584	5,891
Total assets	2,441,938	3,027,770	4,082,585	4,028,594	5,260,389	5,340,659	5,530,897	5,729,192	5,932,400
Liabilities	-	-	-	-	-	-	-	-	-
Balances of market participants	574,590	466,860	606,480	565,923	669,822	605,713	651,128	699,908	748,863
Central counterparty financial liabilities	1,733,264	2,430,084	3,312,020	3,262,671	4,429,187	4,562,062	4,698,924	4,839,892	4,985,089
Distributions payable to holders of securities	2,952	2,508	24,676	11,714	16,920	22,055	22,827	23,625	24,334
Margin account under reverse repo/loans payable	-	385	980	1	303	-	-	-	-
Liabilities related to assets held for sale	991	-	-	6	-	-	-	-	-
Deferred tax liability	3,166	2,943	3,821	2,361	2,409	3,139	3,249	3,363	3,464
Current tax payables	-	-	31	1,042	546	-	-	-	-
Other liabilities	3,592	3,711	3,969	3,797	3,751	4,017	4,259	4,514	4,762
Liability to buy back own shares	-	-	-	-	-	-	-	-	-
Total liabilities	2,318,554	2,906,491	3,956,980	3,896,742	5,122,938	5,196,987	5,380,387	5,571,303	5,766,512
Total equity attributable to owners of the parent	123,192	121,102	125,422	131,668	137,336	143,552	150,385	157,758	165,749
Non-controlling interest	191	177	182	185	115	120	126	132	139
Total equity attributable to owners of the parent	123,384	121,279	125,605	131,852	137,451	143,672	150,511	157,890	165,888
Total liabilities and equity	2,441,938	3,027,770	4,082,585	4,028,594	5,260,389	5,340,659	5,530,897	5,729,192	5,932,400

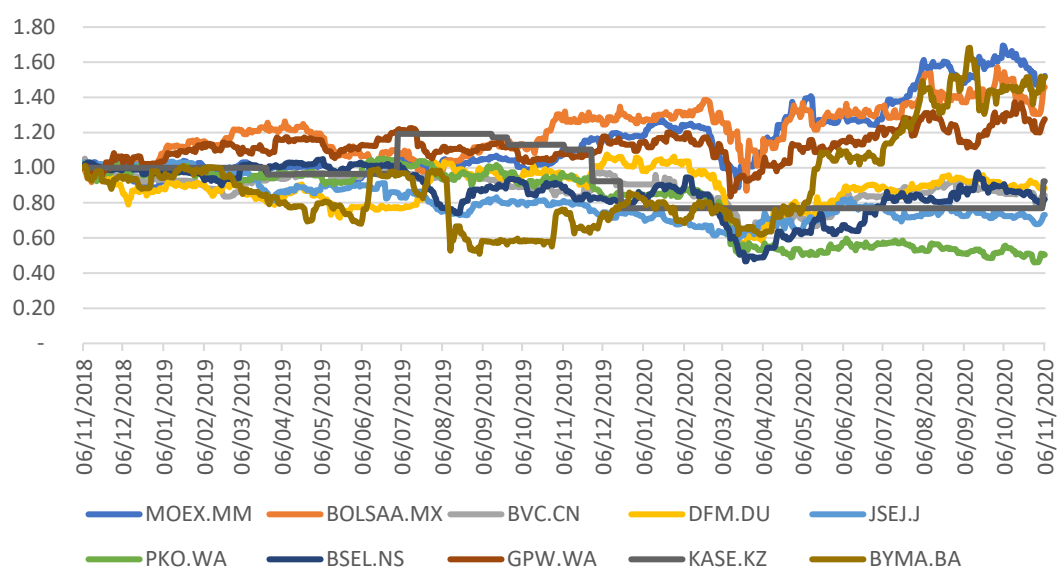
Source: Company data, Hypothesis Research estimates

Figure 13. Sensitivity of fair Market Cap based on DCF model, RUB mn

GROWTH RATE / WACC	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%
0.00%	435,791	397,539	366,068	339,690	317,240	297,883	281,005
1.00%	477,480	430,553	392,813	361,764	335,743	313,597	294,502
2.00%	531,012	471,763	425,452	388,209	357,572	331,897	310,047
3.00%	602,304	524,679	466,194	420,482	383,724	353,487	328,148
4.00%	702,013	595,152	518,508	460,767	415,639	379,352	349,505

Source: Hypothesis Research estimates

Figure 14. Relative share price dynamics



Source: Refinitive

Figure 15. Comparison of selected financial sector peers

Company name	Mkt Cap, \$mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Revenues 1y fwd	EV/ Revenues 2y fwd	EV/ Revenues 3y fwd
Moscow Exchange	3905	53185	12.7	11.9	10.8	6.1	5.8	5.4	6.4	6.2	5.8
Discount to EM peers			-30%	-31%	-34%	-60%	-54%	-51%	-4%	1%	-2%
Discount to global peers			-51%	-54%	-54%	-65%	-66%	-66%	-39%	-39%	-41%
International peers											
Bolsa Mexicana de Valores SAB de CV	1297	1158	17.3	16.6	15.3	10.2	9.7	9.0	6.2	5.9	5.5
Bolsa de Valores de Colombia SA	171	175	10.0	15.3	13.2	7.0	6.9	6.0	2.1	2.0	1.9
Dubai Financial Market PJSC	1764	886	NaN	NaN	NaN	NaN	NaN	NaN	9.1	8.7	7.9
Bursa Malaysia Bhd	1639	1095	19.7	24.5	25.7	9.4	11.7	12.3	6.5	7.4	7.4
BSE Ltd	298	114	14.4	12.6	9.5	14.2	9.6	7.4	1.6	1.3	1.2
Gielda Papierow Wartosciowych w Warszawie SA	491	370	14.1	15.2	14.3	7.1	7.9	7.8	3.9	4.0	4.0
Grupo Financiero Valores Sociedad Anonima	305	441	15.6	10.0	NaN	NaN	NaN	NaN	NaN	NaN	NaN
Bolsas y Mercados Argentinos SA	538	-18	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN	NaN
CARE Ratings Ltd	160	103	19.9	15.7	NaN	12.6	9.3	NaN	3.6	3.3	NaN
Multi Commodity Exchange of India Ltd	1157	988	36.0	30.8	27.2	40.1	29.4	20.1	16.5	14.0	11.4
Indian Energy Exchange Ltd	750	670	29.4	24.6	22.4	21.2	17.7	15.6	16.8	14.2	13.1
EM peers average			18.1	17.1	16.4	15.2	12.8	11.2	6.7	6.2	5.9
London Stock Exchange Group PLC	40214	41279	40.9	39.5	36.1	23.6	22.9	21.7	13.5	13.2	12.3
Deutsche Boerse AG	29900	32766	20.9	20.4	19.0	14.4	14.0	13.2	8.8	8.5	8.1
Euronext NV	7602	8413	20.4	19.8	18.0	14.2	13.3	12.2	8.3	7.8	7.3
CME Group Inc	53973	56046	22.4	22.6	21.0	17.5	17.5	16.2	11.5	11.7	11.2
Global peers average			26.2	25.6	23.5	17.4	17.0	15.8	10.5	10.3	9.7

Source: Hypothesis Research, Refinitive

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