

BST Research

Saint-Petersburg Exchange IPO on NASDAQ and MOEX: Participate or Not?

Russia Equity Research

01 September 2021

Summary

- PJSC Saint Petersburg Exchange (SPB) is the **largest Russian exchange platform for organizing trades in foreign securities** with a strong growth in trading volumes and the number of securities listed.
- **A slowdown in revenue growth is our key concern**
- We estimate that PE multiples SPb Exchange may trade at 25-30 x 2021 earnings, which gives a **valuation** in the range of **US\$ 1.25 – 1.8 billion**.

History Overview

PJSC Saint Petersburg Exchange (SPB) is the largest Russian exchange platform for organizing trades in foreign securities: bonds, shares and depositary receipts.

In 2014, the exchange began trading in securities of the 20 largest Russian issuers and later added 50 most liquid shares of foreign issuers from the S&P 500 index. The list of issuers gradually grew, and in August 2016 the exchange added a number of the largest South Asian companies. In 2017, trading in Eurobonds also began. The total number of securities by August 2019 exceeded 1,000.

At the beginning of 2021, the number of unique customer accounts on the St. Petersburg Stock Exchange exceeded 600 thousand.

As of June 20, 2021, the number of issuers admitted to trading on the SPB platform reached 1,851 including shares, bonds and depositary receipts of Russian and foreign companies. Foreign instruments are mainly represented by stocks included in the S&P 500 index, as well as securities of European issuers.

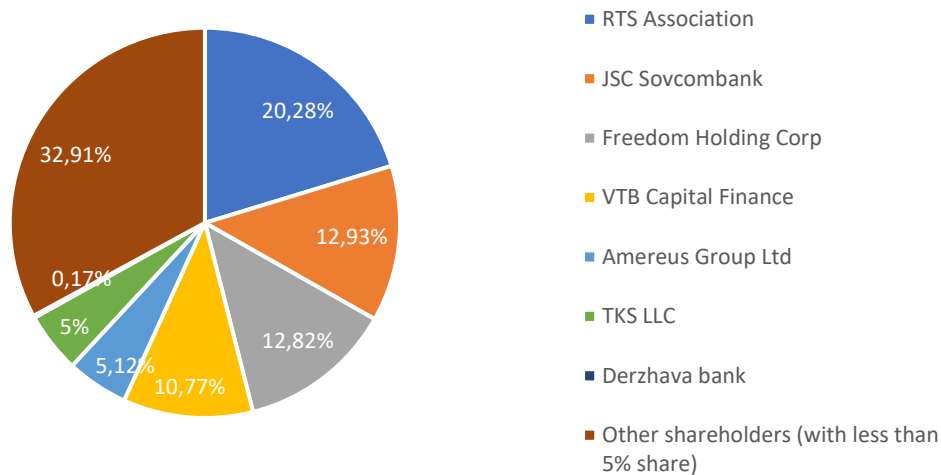
Today SPb Exchange is particularly attractive to institutional and private investors because it features the following:

- Shares of US companies, the most liquid securities on NYSE / Nasdaq;
- European shares - more than 50 German issuers;
- Eurobonds - issuers from 12 countries with a credit rating "B-" and above;
- Depositary receipts - Chinese, Indian and Russian companies;
- ETFs - for qualified investors;
- Indices - proprietary indices based on instruments available on the St. Petersburg Stock Exchange.

SPB is one of the first exchange platforms in Russia and the main competitor of Moscow Stock Exchange. SPb Ex's key difference from Moscow Exchange is its relative independence from the Russian Government.

Key shareholder of Moscow Stock Exchange is Russian Central Bank. Unlike MOEX, SPbEx is mostly controlled by private banks and is therefore more flexible in its listing policy.

SPB Exchange Shareholding Structure



Source: SPB Exchange website

Financial Overview

The exchange derives income from various services but the two key types of fees include:

- Clearing service fee;
- Organization of trading fee.

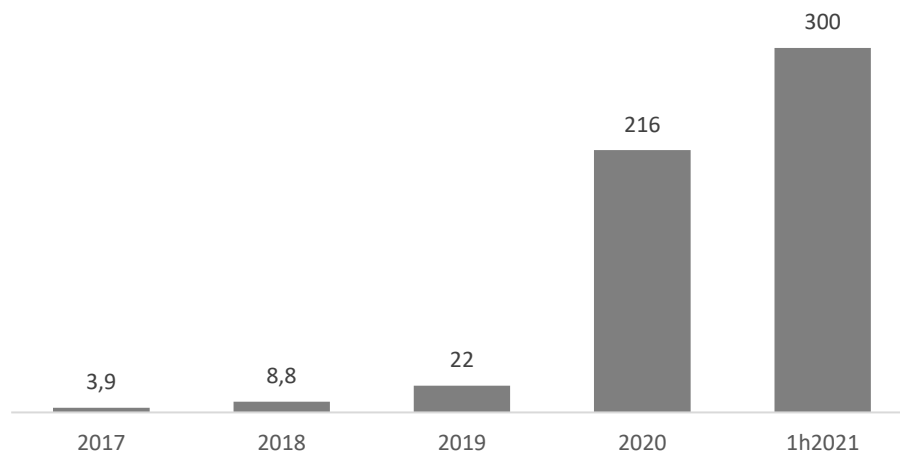
The clearing center services are provided through the NCO-CK “MSE Clearing Center”. The Exchange charges a fee for admission to clearing services and charges a clearing fee based on tariffs.

Income from the organization of trading in the stock market includes a fixed fee for granting admission to participate in organized trading in securities, a fee for providing extracts from registers, as well as a fee for the conclusion of contracts by trading participants.

By the end of 2020, the volume of trading on SPB in the main trading mode in securities of foreign issuers increased tenfold compared to 2019 and reached \$216 billion. By the end of 1h2021 it increased by another 50%.

Trading volume dynamics is shown in the chart below:

Trading Volumes on SPb Exchange, US\$ Billion



Source: SPb Exchange website

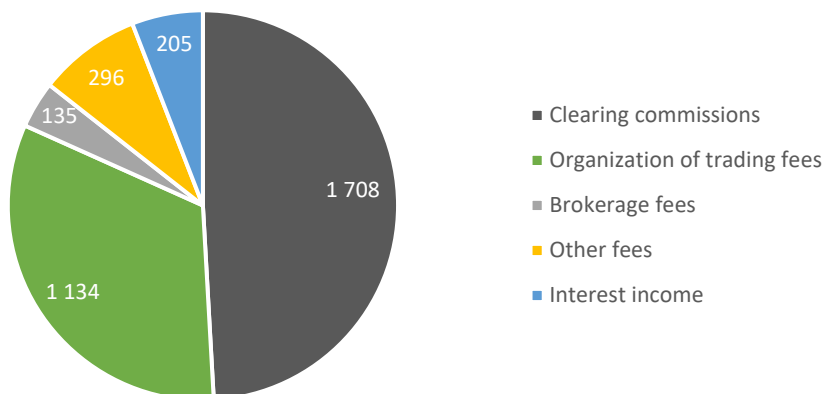
This reflected strongly on operating income. Its growth is shown in the table below:

Rub M	1h19	2h19	1h20	2h20	1h21
Operating income	164	551	1 053	2 242	3 478
% change		236%	91%	113%	55%

Source: SPb Exchange website

In just two years the exchange increased its operating income by 21 times. Almost 50% of income comes from commissions for clearing services. Another major income source is fees for organization of trading.

Operating income structure, Rub M



Source: SPb Exchange website

Assets, equity demonstrate phenomenal growth supported by booming profitability:

RUR' M	1h19	2h19	1h20	2h20	1h21
Assets	1 408	3 347	9 903	18 327	39 042

Equity	472	482	2 527	3 431	4 905
Net profit	1	-1	332	338	1 481

Source: SPb Exchange website

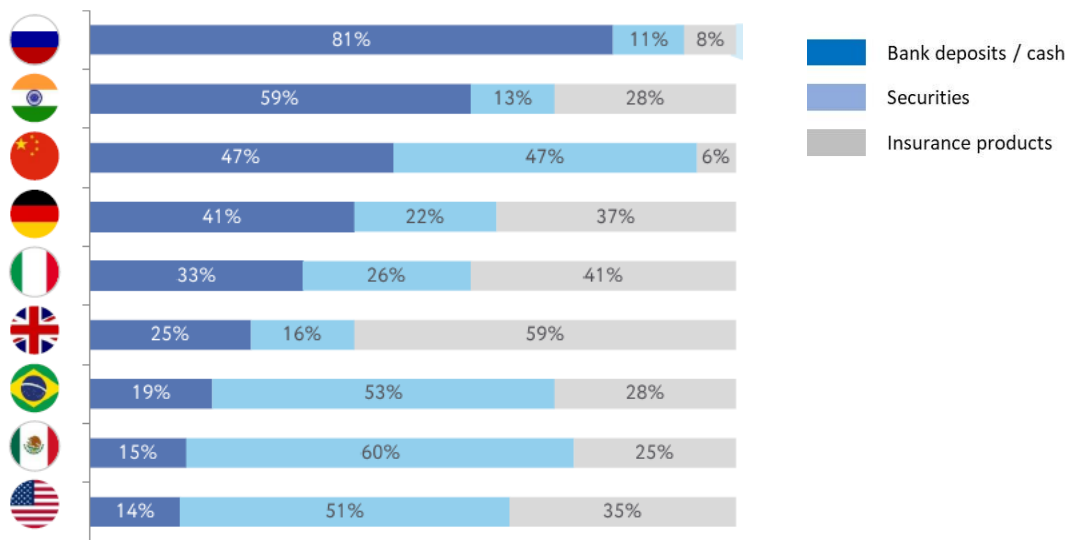
SPb Ex net profit for 2021 may well be in the range of Rub 3- 4.5 billion (US\$50-60 million).

The results are amazing and reflect a strong demand among Russian investors for investment opportunities afforded by the US stock market.

However, the chart of operating income dynamics clearly shows that *growth in revenue is slowing down*. Further increases are still possible, albeit they are likely to come at a much slower rate.

Potential for further growth

Still potential for further growth remains strong.



Source: SPb Exchange website

As the chart shows, 81% of their savings the Russians prefer to store as bank deposits and cash. Securities including stocks account for only 11%. This is the lowest level among the countries shown in the chart and should, for example, investments in securities increase to the level of Germany, it means the market has the potential to double.

Valuation

Below is a compilation of data on valuations of stock exchanges and trading platforms in the world:

Company	Country	Market Cap (\$ Billion)	P/E	
			2021F	2022F
Exchange				
CME Group	USA	78 380	32,4	29,8
Hong Kong Exchange	Hong Kong	78 189	41,2	35,9

Intercont. Exchange	USA	62 872	22,5	21,2
London Stock Exchange	UK	59 594	27,9	24,4
Deutsche Boerse	Germany	31 038	20,4	18,7
NASDAQ	USA	27 605	24,4	23,4
Brasil Bolsa Balcao	Brasil	20 848	21,1	21,2
Japan Exchange Group	Japan	12 583	27,5	26,3
CBOE Global Markets	USA	11 963	21	20,3
ASX	Australia	11 490	31,1	30,7
Euronext	The Netherlands	11 430	18	16,5
Singapore Exchange	Singapore	8 374	23,9	23,2
TMX Group	Canada	6 185	20	19
MOEX	Russia	5 347	14,4	13,4
Dubai Financial Market	UAE	2 439	56	56
Bursa Malaysia	Malasia	1 606	18,5	21,7
Bolsa Mexicana	Mexico	1 283	16,5	15,3
Multy Commodity	India	1 102	33,6	27,6
Average			26,1	24,7
Technological brokers and information platforms				
Interactive Brokers	USA	29 982	22,3	22,4
Futu Holdings	China	22 026	46,2	31,6
Tradeweb	USA	19 084	52,5	47,3
Marketaxess	USA	16 985	55,4	49,4
Factsheet	USA	12 252	29	27,2
Average			41,1	35,6
Russian public companies on NASDAQ				
Yandex	Russia	23 955	66,4	41,6
OZON	Russia	11 303	neg	neg
Headhunter	Russia	1 850	34,2	24,6
Average			50,3	33,1

Source: Bloomberg, BST Research own estimates

Based on the above PE multiples SPb Exchange may trade at 25-30 x 2021earnings. This gives a **valuation** in the range of **US\$ 1.25 – 1.8 billion**.

Disclaimer:

This is not an investment recommendation!

The content of this report is not an investment advice and does not constitute any offer or solicitation to offer or recommendation of any investment product. It is for general purposes only and does not take into account your individual needs, investment objectives and specific financial circumstances.