

NZX

RESEARCH INSIGHTS[#]

1H19 Result — Tracking to Plan

NZX Limited (NZX) reported a solid interim result. Operating earnings were in line with expectations as robust growth in Funds Management and Data & Insights, and a steady performance in Issuer Relationships, were partially offset by continued soft Secondary Markets trading and the impact of its 2H18 fee structure change. Operating earnings guidance was reiterated at NZ\$28–\$31m, and this appears achievable given current run rates. Medium-term, Funds Management remains an attractive growth business, but core markets performance will be dependent on an uplift in trading and capital raising activity from current low levels.

What's changed?

- **Earnings:** Operating EBITDA FY19E/FY20E/FY21E +1%/+2%/+1%.

Key take-outs

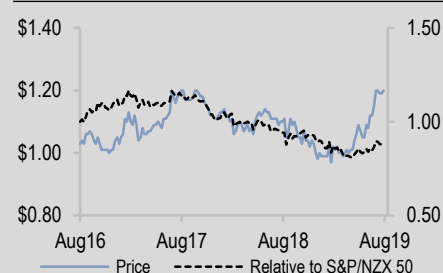
- **Headline earnings in-line with expectations:** Operating earnings up +4.3% to NZ\$14.5m were broadly consistent with expectations (Forbar NZ\$14.8m) with operating revenue +4.5% tracking in-line with expenses +4.6%. Underlying NPAT declined -7.4% due to higher interest costs from the subordinated note issued in 2H18 and commencement of amortisation from the Wealth Technology platform.
- **Solid Issuer Relationships performance:** Issuer Relationships revenue +5% was solid, and capital raised of NZ\$7.7bn is tracking ahead of expectations (albeit with more low-value wholesale debt). With Napier Port to list in 2H19, further growth in equity and/or retail debt issuance provides potential upside to expectations (though this is difficult to forecast).
- **Secondary Markets lags:** Secondary Markets was the primary drag on performance. Revenue declined -17% due to a combination of (1) value traded down -10%, (2) the new fee structure put in place in October 2018, and (3) changes in trading patterns (more large trades hitting the trading fee cap). NZX is looking to mitigate the impact of trading pattern changes with a new pricing structure introduced 1 July.
- **Robust Funds Management growth:** Funds Management maintained its trajectory with revenue +18% as FUM continues to grow strongly, up +19% (net cash flow +8%). This drove operating earnings up +27% as revenue significantly outpaced expenses.
- **Guidance and outlook maintained:** NZX reiterated operating earnings guidance of NZ\$28–\$31m (subject to market outcomes), and declared an interim dividend of NZ3.0cps (fully imputed). While most key FY19 targets are tracking ahead of plan, and potential for further capital raising activity provides some upside, a continuation of muted trading activity will provide a near-term headwind to earnings. Medium-term, NZX's lofty aspirational targets will require a material improvement in current low trading and capital raising activity. While we support management's growth initiatives, external forces will also be a factor.

Investment View

NZX has achieved progress on initiatives such as improving customer engagement, increasing secondary market liquidity, divesting non-core businesses, and lifting funds under management. However, muted secondary market trading remains a headwind, and medium-term targets are reliant on an uplift in capital raising and trading activity.

NZX Code	NZX
Share price	NZ\$1.20
Issued shares	269.6m
Market cap	NZ\$322m
Average daily turnover	234.1k (NZ\$249k)

Share Price Performance



Financials: December	18A	19E	20E	21E
NPAT* (NZ\$m)	13.7	14.1	15.7	17.7
EPS* (NZc)	5.1	5.2	5.8	6.6
EPS growth* (%)	-7.6	3.4	11.1	12.6
DPS (NZc)	7.6	6.1	6.1	6.6
Imputation (%)	100	100	100	100

Valuation (x)	18A	19E	20E	21E
EV/EBITDA	10.9	10.7	10.1	9.5
EV/EBIT	14.6	14.7	13.4	12.1
PE	23.7	22.9	20.6	18.3
Price / NTA	8.0	7.7	6.9	6.1
Cash dividend yield (%)	6.3	5.1	5.1	5.5
Gross dividend yield (%)	8.8	7.1	7.1	7.6

*Historic and forecast numbers based on underlying profits

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[#]Forsyth Barr RESEARCH INSIGHTS targets selected smaller cap stocks or those under transitional coverage and focuses on qualitative rather than quantitative assessments. We do not provide investment ratings or target prices on these stocks.

NZX Ltd (NZX)

Priced as at 13 Aug 2019: NZ\$1.20

December year end

Research Insights

Forsyth Barr Research Insights focuses on qualitative rather than quantitative assessments of an equity investment.

We do not provide valuation, target prices or investment ratings for companies in the Research Insights series. It is targeted at selected smaller cap stocks with typically higher risk attributes, or those under transitional coverage.

Our earnings and cashflow forecasts, together with key valuation and ratios provided on this page should assist investors in determining the relative valuation merits of the company.

Valuation Ratios

	2017A	2018A	2019E	2020E	2021E
EV/EBITDA (x)	11.4	10.9	10.7	10.1	9.5
EV/EBIT (x)	14.9	14.6	14.7	13.4	12.1
PE (x)	21.9	23.7	22.9	20.6	18.3
Price/NTA (x)	9.1	8.0	7.7	6.9	6.1
Free cash flow yield (%)	5.7	4.6	3.9	5.3	6.2
Net dividend yield (%)	5.1	5.1	5.1	5.1	5.5
Gross dividend yield (%)	7.1	7.1	7.1	7.1	7.6
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	111	120	116	105	100

Capital Structure

	2017A	2018A	2019E	2020E	2021E
Interest cover EBIT (x)	57.6	16.3	11.0	12.1	14.1
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-29.3	-11.3	-4.7	-6.0	-12.5
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Profit and Loss Account (NZ\$m)

	2017A	2018A	2019E	2020E	2021E
Sales revenue	63.7	64.6	67.3	70.5	74.1
Normalised EBITDA	27.2	28.6	29.7	31.6	33.7
Depreciation and amortisation	(6.5)	(7.2)	(8.1)	(7.8)	(7.3)
Normalised EBIT	20.7	21.3	21.6	23.8	26.4
Net interest	(0.4)	(1.3)	(2.0)	(2.0)	(1.9)
Associate income	-	-	-	-	-
Tax	(5.7)	(6.1)	(5.5)	(6.1)	(6.9)
Minority interests	-	-	-	-	-
Normalised NPAT	14.7	13.7	14.1	15.7	17.7
Abnormals/other	0.5	(2.0)	-	-	-
Reported NPAT	15.2	11.6	14.1	15.7	17.7
Normalised EPS (cps)	5.5	5.1	5.2	5.8	6.6
DPS (cps)	6.1	6.1	6.1	6.1	6.6

Key Ratios

	2017A	2018A	2019E	2020E	2021E
Return on assets (%)	10.9	11.2	11.6	12.8	14.2
Return on equity (%)	22.5	21.0	23.2	26.1	29.0
Return on funds employed (%)	29.6	26.2	27.6	31.2	36.0
EBITDA margin (%)	42.8	44.2	44.1	44.7	45.5
EBIT margin (%)	32.6	33.1	32.1	33.7	35.7
Capex to sales (%)	9.6	14.5	11.7	8.6	6.4
Capex to depreciation (%)	545	583	332	296	273

Continuing operations

	2017A	2018A	2019E	2020E	2021E
Revenue (NZ\$m)					
Core markets	52.4	51.9	51.9	53.5	55.5
Funds services	11.3	12.6	15.2	16.9	18.5
Corporate	-	-	0.2	0.1	0.1
Total revenue	63.7	64.6	67.3	70.5	74.1
Revenue % chg					
Core markets	-2.3%	-0.8%	-0.1%	3.0%	3.8%
Funds services	-13.3%	11.6%	20.2%	11.7%	9.1%
Total revenue	-4.4%	1.4%	4.2%	4.9%	5.0%

Operating earnings (NZ\$m)

	2017A	2018A	2019E	2020E	2021E
Core markets	40.0	39.5	39.2	40.7	42.5
Funds services	2.7	4.8	6.1	6.9	7.7
Corporate	(15.5)	(15.7)	(15.7)	(16.0)	(16.4)
Total operating earnings	27.2	28.6	29.7	31.6	33.7

Operating earnings margin

	2017A	2018A	2019E	2020E	2021E
Core markets	76.5%	76.0%	75.5%	76.0%	76.5%
Funds services	24.1%	37.7%	40.5%	41.0%	41.5%
Total operating margin	42.8%	44.2%	44.1%	44.7%	45.5%

Growth Rates

	2017A	2018A	2019E	2020E	2021E
Revenue (%)	-17.9	1.4	4.2	4.9	5.0
EBITDA (%)	21.0	4.8	3.9	6.3	6.9
EBIT (%)	42.1	3.0	1.3	10.0	11.2
Normalised NPAT (%)	59.5	-7.2	3.4	11.1	12.6
Normalised EPS (%)	59.4	-7.6	3.4	11.1	12.6
DPS (%)	1.7	0.0	0.0	0.0	7.6

Cash Flow (NZ\$m)

	2017A	2018A	2019E	2020E	2021E
EBITDA	27.2	28.6	29.7	31.6	33.7
Working capital change	3.3	1.1	(1.7)	(0.4)	(0.4)
Interest & tax paid	(6.2)	(5.6)	(7.5)	(8.1)	(8.8)
Other	-	-	-	-	-
Operating cash flow	24.4	24.1	20.5	23.1	24.6
Capital expenditure	(6.1)	(9.4)	(7.9)	(6.0)	(4.7)
(Acquisitions)/divestments	0.0	(5.4)	-	-	-
Other	1.9	-	-	-	-
Funding available/(required)	20.2	9.2	12.6	17.1	19.8
Dividends paid	(16.1)	(17.5)	(16.4)	(16.4)	(16.4)
Equity raised/(returned)	-	-	-	-	-
Increase/(decrease) in net debt	(4.1)	8.3	3.8	(0.6)	(3.4)

Balance Sheet (NZ\$m)

	2017A	2018A	2019E	2020E	2021E
Working capital	2.6	2.7	2.8	2.9	3.0
Fixed assets	45.6	58.8	64.3	68.3	71.3
Intangibles	30.3	24.7	19.0	13.3	7.8
Other assets	70.8	70.8	70.8	70.8	70.8
Total funds employed	149.4	157.1	157.0	155.4	153.0
Net debt/(cash)	(14.9)	(6.6)	(2.8)	(3.4)	(6.8)
Other non current liabilities	98.7	98.7	98.7	98.7	98.7
Shareholder's funds	65.6	65.0	61.1	60.1	61.1
Minority interests	-	-	-	-	-
Total funding sources	149.4	157.1	157.0	155.4	153.0

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Result summary

Figure 1. 1H19 result summary

NZ\$000	1H18	1H19	% chg
Operating revenue			
Issuer Relationships	11,500	12,115	5.3%
Secondary Markets	8,546	7,070	-17.3%
Data & Insights	5,574	6,349	13.9%
Total markets	25,620	25,534	-0.3%
Funds Management	5,355	6,305	17.7%
Wealth Technologies	483	838	73.5%
Total Funds Services	5,838	7,143	22.4%
Corporate	-	186	na
Total operating revenue	31,458	32,863	4.5%
Operating expenses			
Markets	(6,034)	(6,750)	11.9%
Funds Services	(3,889)	(4,144)	6.6%
Corporate	(7,679)	(7,524)	-2.0%
Total operating expenses	(17,602)	(18,418)	4.6%
Operating earnings			
Markets	19,586	18,784	-4.1%
Funds Services	1,949	2,999	53.9%
Corporate	(7,679)	(7,338)	-4.4%
Total operating earnings	13,856	14,445	4.3%
Depreciation & amortisation	(3,509)	(4,281)	22.0%
Operating EBIT	10,347	10,164	-1.8%
Net interest expense	(441)	(937)	112.5%
Operating EBT	9,906	9,227	-6.9%
Abnormal items	48	(138)	-387.5%
EBT	9,954	9,089	-8.7%
Tax expense	(3,006)	(2,641)	-12.1%
NPAT from continuing operations	6,948	6,448	-7.2%
Discontinued operations	(2,524)	-	na
Reported NPAT	4,424	6,448	45.8%
Underlying EPS (cps)	2.6	2.4	-7.4%

Source: Company reports, Forsyth Barr analysis

Earnings revisions

We make only minor changes to headline earnings forecasts. Revenue is reduced due to changes to the Smartshares operating model (revenue received net of fund expenses) but this has no impact on operating earnings. NPAT is down modestly, driven by updated interest expense and amortisation assumptions, and slightly higher capex forecasts.

Figure 2. Earnings revisions

NZ\$000	FY19E			FY20E			FY21E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	70,153	67,265	-4.1%	73,592	70,548	-4.1%	77,580	74,090	-4.5%
EBITDA	29,343	29,675	1.1%	30,975	31,551	1.9%	33,425	33,743	1.0%
Normalised NPAT	14,418	14,142	-1.9%	15,682	15,710	0.2%	17,837	17,689	-0.8%
EPS (cps)	5.3	5.2	-1.9%	5.8	5.8	0.2%	6.6	6.6	-0.8%
DPS (cps)	6.1	6.1	0.0%	6.1	6.1	0.0%	6.6	6.6	-0.8%

Source: Forsyth Barr analysis

Investment summary

NZX offers investors leverage to a diverse portfolio of financial markets through its operation of New Zealand's stock exchange and clearing house, as well as its information services and funds services businesses. Following a detailed review by the board and leadership team, that included over 200 interviews with stakeholders, NZX has unveiled a five year strategic plan. NZX has subsequently divested its non-dairy Agri business over the course of 2018, choosing to focus on its core competencies — core markets and fund services. There is significant operating leverage in NZX's business model and while there remain near-term earnings headwinds, this can turn quickly should the NZ capital raising market improve from current low levels.

Key drivers

- **Capital markets performance:** Over 50% of NZX's revenues are derived from its capital markets related operations, including annual listing fees, data provision and IPO activity.
- **KiwiSaver and FuM:** NZX's Funds Management business is now beginning to achieve scale and operating leverage is becoming evident. Continued retail investment in Smartshare ETFs and a growing Kiwisaver base should provide further upside to this division.

Other key company and industry issues

- **Operating leverage potential:** NZX's business is well placed to generate operating leverage, albeit NZX has not experienced this recently with heavy investment in people.
- **Regulatory environment:** The broad regulatory environment for financial markets and their operation is constantly being reassessed.

Upcoming catalysts/events

- **Monthly/Quarterly metrics updates:** NZX provides a high level of transparency, including its monthly operating metric releases.
- **Significant capital raising activity:** NZX generates revenue from IPO and capital raisings. Current activity is subdued. With the significant operating leverage in NZX's business model any significant capital raising activity will positively impact earnings.

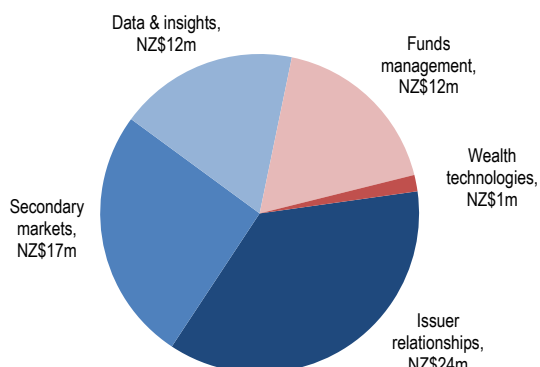
Key risks

- **Market slowdown:** Earnings growth is reliant on an active market in trading and capital raising. Any economic or market slowdown would create a material headwind.

Company description

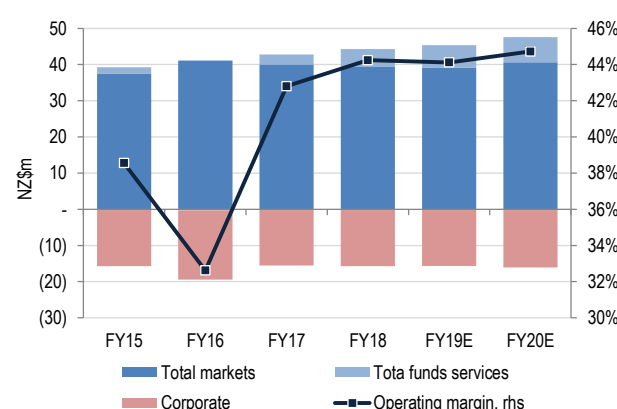
NZX operates the New Zealand stock exchange. It also operates a clearing house for equities, hybrids, debt securities and ETFs, and has expanded into the NZ electricity market and agricultural commodities and information. Its most recent acquisition of the Superlife fund management business provides it scale in this area. Its principal financial markets revenue sources are listings, trading & clearing and market information. The electricity contracts are also key revenue drivers.

Figure 3. Revenue by business (FY18)



Source: Company reports, Forsyth Barr analysis

Figure 4. Operating earnings (continuing operations)



Source: Company reports, Forsyth Barr analysis

Figure 5. Substantial Shareholders

Shareholder	Latest Holding
Aberdeen Asset Management Limited	9.1%
Highclere International Investors	6.0%
ACC	5.0%

Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 6. International Compco

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT	Cash D/Yld		
			(m)	2019E	2020E	2019E	2020E	2019E	2020E	2020E	
<i>(metrics re-weighted to reflect NZX's balance date - December)</i>											
NZX	NZX NZ	NZ\$1.20	NZ\$322	22.9x	20.6x	10.6x	10.0x	14.6x	13.3x	5.1%	
ASX	ASX AT	A\$86.99	A\$16,841	33.7x	32.6x	18.9x	18.1x	20.3x	19.4x	2.8%	
CME Group Inc	CME US	US\$212.52	US\$76,102	31.9x	29.2x	25.1x	22.8x	28.8x	25.5x	2.9%	
Nasdaq Inc	NDAQ US	US\$96.75	US\$15,934	19.6x	18.1x	14.6x	13.9x	n/a	n/a	2.1%	
London Stock Exchange Group PLC	LSE LN	£67.90	£23,745	34.8x	30.5x	20.6x	18.6x	24.1x	21.6x	1.1%	
Deutsche Boerse AG	DB1 GR	€126.60	€24,054	21.3x	19.5x	14.3x	13.3x	16.4x	15.1x	2.5%	
Intercontinental Exchange Inc	ICE US	US\$90.66	US\$50,768	24.1x	21.8x	17.4x	16.4x	20.1x	18.8x	1.3%	
TMX Group	X CN	C\$112.07	C\$6,284	20.0x	18.4x	14.9x	13.9x	17.9x	n/a	2.3%	
Hong Kong Exchanges & Clearing	388 HK	HK\$239.80	HK\$301,694	29.3x	25.9x	6.3x	5.7x	6.6x	5.7x	3.5%	
Singapore Exchange	SGX SP	S\$8.11	S\$8,676	21.8x	20.8x	15.0x	14.4x	16.9x	16.0x	3.7%	
Compco Average:				26.3x	24.1x	16.3x	15.2x	18.9x	17.5x	2.5%	
EV = Current Market Cap + Actual Net Debt				NZX Relative:	-13%	-14%	-35%	-34%	-23%	-24%	+106%