

NZX

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.

RESEARCH INSIGHTS#

NZX Code				NZX
Share price				2 \$1.20
Issued shares			_	69.6m
Market cap				322m
Average daily turnover		234.	1k (NZ	3249k)
Share Price Performance	:			
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Financials: December NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%)	18A 13.7 5.1	19E 14.1 5.2	20E 15.7 5.8	21E 17.7 6.6 12.6
Financials: December NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%) DPS (NZc)	18A 13.7 5.1 -7.6	19E 14.1 5.2 3.4	20E 15.7 5.8 11.1	21E 17.7 6.6 12.6 6.6
Financials: December NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%)	18A 13.7 5.1 -7.6 7.6 100	19E 14.1 5.2 3.4 6.1 100	20E 15.7 5.8 11.1 6.1 100	21E 17.7 6.6 12.6 6.6
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Financials: December NPAT* (NZ\$m) EPS* (NZc) EPS growth* (%) DPS (NZc) Imputation (%) Valuation (x) EV/EBITDA EV/EBIT PE	18A 13.7 5.1 -7.6 7.6 100 18A 10.9 14.6 23.7	19E 14.1 5.2 3.4 6.1 100 19E 10.7 14.7 22.9	20E 15.7 5.8 11.1 6.1 100 20E 10.1 13.4 20.6	21E 17.7 6.6 12.6 6.6 100 21E 9.5 12.1 18.3
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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.



Research Insights	NZX Ltd (NZX)		Priced	as at 13 A	ua 2019:	NZ\$1.20			December year end				
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Profit and Loss Account (NZSm) 2017A 2018A 2019E 2020E 2021E Net desibn/Lock Net desi							•						
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Depreciation and amortisation (6,5) (7,2) (8,1) (7,8) (7,8) (7,8) (8,4) (8,4) (1,4			64.6		70.5		Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a	
Normalised EBIT Q-7 21.3 21.6 23.8 26.4 Return on assets (%) 10.9 11.2 11.6 12.8 14.2 14.0 23.6 23.0 23.2 26.1 23.0 23.0 23.2 26.1 23.0 2	Normalised EBITDA	27.2		29.7									
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Associate income 1	Normalised EBIT	20.7	21.3	21.6	23.8	26.4	Return on assets (%)	10.9	11.2	11.6	12.8	14.2	
Tax (5.7) (6.1) (6.5) (6.1) (6.9) (6.9) (6.9) [BIITDA margin (%) 42.8 44.2 44.1 44.7 45.5 Minority interests (7	Net interest	(0.4)	(1.3)	(2.0)	(2.0)	(1.9)	Return on equity (%)	22.5	21.0	23.2	26.1	29.0	
Minority interests 14,7 13,7 14,1 15,7 17,7 Capex to select (%) 9,6 14,5 11,7 8,6 6.4 Abnormalised PPS (xps) 15,2 11,6 14,1 15,7 17,7 Capex to select (%) 545 583 332 32,1 33,7 35,7 Reported MPAT 15,2 11,6 14,1 15,7 17,7 Capex to select (%) 545 583 332 32,2 20,225 Expert (apexelation) 545 583 332 32,2 33,7 35	Associate income	-	-	-	-	-	Return on funds employed (%)	29.6	26.2	27.6	31.2	36.0	
Minority interests	Tax	(5.7)	(6.1)	(5.5)	(6.1)	(6.9)	EBITDA margin (%)	42.8	44.2	44.1	44.7	45.5	
Normalised NPAT 14.7 13.7 14.1 15.7 17.7 Capex to selese (%) 9.6 14.5 11.7 8.6 6.4 Abnormals/other 0.5 (2.0) - 1 - 2 Capex to despeciation (%) 545 583 332 296 273 Reported MPAT 15.2 11.6 14.1 15.7 17.7 Capex to despeciation (%) 545 583 332 296 273 Reported MPAT 15.2 11.6 14.1 15.7 17.7 Capex to despeciation (%) 545 583 332 296 273 Reported MPAT 15.2 11.6 14.1 15.7 17.7 Capex to despeciation (%) 545 583 332 296 273 Reported MPAT 15.2 11.6 14.1 15.7 17.7 Capex to despeciation (%) 545 583 332 296 273 274	Minority interests	-	-	-	-	-	EBIT margin (%)	32.6	33.1	32.1	33.7	35.7	
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 6.1 6.6 6.1 6.	Normalised NPAT	14.7	13.7	14.1	15.7	17.7	Capex to sales (%)	9.6	14.5	11.7	8.6	6.4	
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 6.1 6.6 6.1 6.	Abnormals/other	0.5	(2.0)	_	_	-	. ,	545			296	273	
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DPS (cps) 6.1 6.1 6.1 6.1 6.1 6.6 6.6 6.6 Revenue (NZ\$m) Revenue (%) -17.9 1.4 4.2 4.9 5.0 Funds services 11.3 12.6 5.2 16.9 18.5	•						Continuing operations	2017A	2018A	2019E	2020E	2021E	
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Growth Rates 2017A 2018A 2019E 2020E 2021E Core markets 52.4 5.1.9 5.1.9 5.5.5 5.5.5 Revenue (%) -17.9 1.4 4.2 4.9 5.0 Funds services 11.3 12.6 15.2 16.9 18.5 EBITDA (%) 21.0 4.8 3.9 6.3 6.0 Corporate - - 0.2 0.1 0.1 EBITDA (%) 42.1 3.0 1.3 10.0 11.2 1.26 Revenue % chg DPS (%) 59.4 -7.6 3.4 11.1 12.6 Revenue % chg	21 0 (000)	0.1	0.1	0.1	0.1	0.0	Revenue (NZ\$m)						
Revenue (%)	Growth Rates	2017Δ	2018Δ	2019F	2020E	2021F	• •	52 4	51 9	51 9	53.5	55.5	
EBITDA (%)													
EBIT (%)								11.0					
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Normalised EPS (%)	` '						i otal revenue	03.1	04.0	01.3	70.5	74.1	
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Cash Flow (NZ\$m) 2017A 2018A 2019E 2020E 2021E Total revenue -4.4% 1.4% 4.2% 4.9% 5.0% EBIT DA 27.2 28.6 29.7 31.6 33.7 Vorking capital change 3.3 1.1 (1.7) (0.4) Operating earnings (NZ\$m) Underset & tax paid (6.2) (5.6) (7.5) (8.1) (8.8) Core markets 40.0 39.5 39.2 40.7 42.5 Other - - - - - - - Funds services 2.7 4.8 6.1 6.9 7.7 Operating cash flow 24.4 24.1 20.5 23.1 24.6 Corporate (15.5) (15.7) (15.7) (16.0) (16.4) (16.4) (16.0) (4.7) Total operating earnings 27.2 28.6 29.7 31.6 33.7 Chery Guity risined/idresperiditure 0.0 0.5 1.7 19.8 Core markets 76.5% 76.0% 75.5%	DPS (%)	1.7	0.0	0.0	0.0	7.0	i e e e e e e e e e e e e e e e e e e e						
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Interest & tax paid (6.2) (5.6) (7.5) (8.1) (8.8) Core markets 40.0 39.5 39.2 40.7 42.5 Other Funds services 2.7 4.8 6.1 6.9 7.7 Operating cash flow 24.4 24.1 20.5 23.1 24.6 Corporate (15.5) (15.7) (15.7) (16.0) (16.4) Capital expenditure (6.1) (9.4) (7.9) (6.0) (4.7) Total operating earnings 27.2 28.6 29.7 31.6 33.7 (Acquisitions)/divestments 0.0 (5.4) Operating earnings margin Punding available/(required) 20.2 9.2 12.6 17.1 19.8 Core markets 76.5% 76.0% 75.5% 76.0% 75.5% 76.5													
Other - - - - - - - Funds services 2.7 4.8 6.1 6.9 7.7 Operating cash flow 24.4 24.1 20.5 23.1 24.6 Corporate (15.5) (15.7) (15.7) (16.0) (16.4) Capital expenditure (6.1) (9.4) (7.9) (6.0) (4.7) Total operating earnings 27.2 28.6 29.7 31.6 33.7 Chord of their expenditure 1.9 - </td <td></td> <td></td> <td></td> <td>` '</td> <td>, ,</td> <td>, ,</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>				` '	, ,	, ,							
Operating cash flow Capital expenditure 24.4 (6.1) 29.5 (7.9) 23.1 (7.9) 24.6 (7.9) Corporate (7.5) (15.7) (15.7) (16.0) (16.4) Capital expenditure (6.1) (9.4) (7.9) (6.0) (4.7) Total operating earnings 27.2 28.6 29.7 31.6 33.7 (Acquisitions)/divestments 0.0 (5.4) - - - Operating earnings margin 27.2 28.6 29.7 31.6 33.7 Funding available/(required) 20.2 9.2 12.6 17.1 19.8 Core markets 76.5% 76.0% 75.5% 76.0% 76.5% Equity raised/(returned) (16.1) (17.5) (16.4) (16.4) (16.4) Funds services 24.1% 37.7% 40.5% 41.0% 41.5% Equity raised/(returned) - <	Interest & tax paid	(6.2)	(5.6)	(7.5)	(8.1)	(8.8)						42.5	
Capital expenditure (6.1) (9.4) (7.9) (6.0) (4.7) Total operating earnings 27.2 28.6 29.7 31.6 33.7 (Acquisitions)/divestments 0.0 (5.4) - <	Other	-	-	-	-	-	Funds services		4.8	6.1	6.9	7.7	
(Acquisitions)/divestments 0.0 (5.4) Operating earnings margin Funding available/(required) 20.2 9.2 12.6 17.1 19.8 Core markets 76.5% 76.0% 75.5% 76.0% 76.5% Dividends paid (16.1) (17.5) (16.4) (16.4) (16.4) Funds services 24.1% 37.7% 40.5% 41.0% 41.5% Equity raised/(returned) Total operating margin 42.8% 44.2% 44.1% 44.7% 45.5% 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	Operating cash flow	24.4	24.1	20.5	23.1	24.6	Corporate	(15.5)	(15.7)	(15.7)	(16.0)	(16.4)	
Other 1.9 Operating earnings margin Funding available/(required) 20.2 9.2 12.6 17.1 19.8 Core markets 76.5% 76.0% 75.5% 76.0% 76.5% Dividends paid (16.1) (17.5) (16.4) (16.4) (16.4) Funds services 24.1% 37.7% 40.5% 41.0% 41.5% Equity raised/(returned) Total operating margin 42.8% 44.2% 44.1% 44.7% 45.5% 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 Fix ed 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 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	Capital expenditure	(6.1)	(9.4)	(7.9)	(6.0)	(4.7)	Total operating earnings	27.2	28.6	29.7	31.6	33.7	
Funding available/(required) 20.2 9.2 12.6 17.1 19.8 Core markets 76.5% 76.0% 75.5% 76.0% 76.5% Dividends paid (16.1) (17.5) (16.4) (16.4) (16.4) Funds services 24.1% 37.7% 40.5% 41.0% 41.5% Equity raised/(returned) -	(Acquisitions)/divestments	0.0	(5.4)	-	-	-							
Dividends paid (16.1) (17.5) (16.4) (16.4) (16.4) (16.4) Funds services 24.1% 37.7% 40.5% 41.0% 41.5% Equity raised/(returned) Total operating margin 42.8% 44.2% 44.1% 44.7% 45.5% 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 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	Other	1.9	-	-	-	-	Operating earnings margin						
Dividends paid (16.1) (17.5) (16.4) (16.4) (16.4) (16.4) Funds services 24.1% 37.7% 40.5% 41.0% 41.5% Equity raised/(returned) Total operating margin 42.8% 44.2% 44.1% 44.7% 45.5% 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 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	Funding available/(required)	20.2	9.2	12.6	17.1	19.8	Core markets	76.5%	76.0%	75.5%	76.0%	76.5%	
Balance Sheet (NZ\$m) 2017A 2018A 2019E 2020E 2021E	Dividends paid	(16.1)	(17.5)	(16.4)	(16.4)	(16.4)	Funds services	24.1%	37.7%	40.5%	41.0%	41.5%	
Received (Received (Rece	Equity raised/(returned)	-	-	-	-	-	Total operating margin	42.8%	44.2%	44.1%	44.7%	45.5%	
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 Shareholder's funds 65.6 65.0 61.1 60.1 61.1 Minority interests - - - - - -	Increase/(decrease) in net debt	(4.1)	8.3	3.8	(0.6)	(3.4)							
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 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 Shareholder's funds 65.6 65.0 61.1 60.1 61.1 Minority interests - - - - - -	· · · · · ·												
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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 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 98.7 Shareholder's funds 65.6 65.0 61.1 60.1 61.1 Minority interests	• • •				29								
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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 - - - -													
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Minority interests													
·													
Total funding sources 149.4 157.1 157.0 155.4 153.0	•												
	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		
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.

Figure 3. Revenue by business (FY18)

Company description

drivers

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

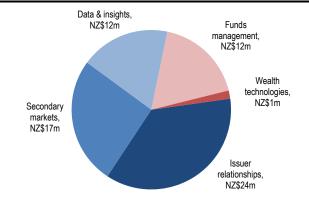
commodities and information. Its most recent acquisition of the Superlife fund

management business provides it scale in

this area. Its principal financial markets

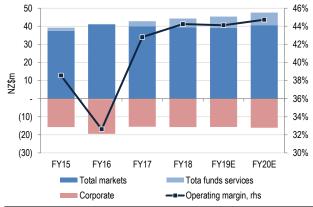
revenue sources are listings, trading & clearing and market information. The

electricity contracts are also key revenue



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 Compcos

Company	Code	Price	Mkt Cap	PE	Ē	EV/EB	ITDA	EV/E	BIT Cas	sh D/Yld
(metrics re-weighted to reflect NZX's balance date - December)			(m)	2019E	2020E	2019E	2020E	2019E	2020E	2020E
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 Ex change 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 Ex change	SGX SP	S\$8.11	S\$8,676	21.8x	20.8x	15.0x	14.4x	16.9x	16.0x	3.7%
		Com	pco Average:	26.3x	24.1x	16.3x	15.2x	18.9x	17.5x	2.5%
EV = Current Market Cap + Actual Net	Debt	ı	NZX Relative:	-13%	-14%	-35%	-34%	-23%	-24%	+106%

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZX) companies fiscal year end

Figure 7. Consensus EPS Momentum

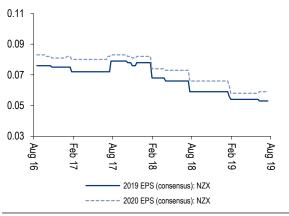
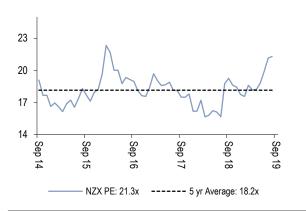


Figure 8. 12 Month Forward PE



Source: Forsyth Barr analysis Source: Forsyth Barr analysis

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