

# NZX

## FY19 – Core Strength, Growth Up and Running

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### RESEARCH INSIGHTS

NZX's (NZX) FY19 result beat market expectations, driven by synchronised divisional growth, with four out of five divisions growing organic revenues by more than 10%. Although Secondary Markets failed to meet targets, we recognise its improved liquidity and positive impact from change in fee structure mid-year which we expect to see further benefit from in FY20. The Wealth Technologies business continues to present an excellent pipeline of opportunities with the FY23 Funds under Administration target of NZ\$35bn–NZ\$50bn unchanged. First time FY20 EBITDA guidance appears conservative. We are encouraged by the evolving group strategy, high quality earnings stream and attractive growth story.

NZX Code	NZX	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.45	NPAT* (NZ\$m)	14.6	15.5	16.8	17.8	EV/EBITDA	14.3	13.9	12.9	12.1
Issued shares	268.5m	EPS* (NZc)	5.4	5.7	6.1	6.5	EV/EBIT	19.8	19.7	18.3	17.3
Market cap	NZ\$389m	EPS growth* (%)	7.1	5.6	8.3	6.3	PE	27.0	25.6	23.6	22.2
Avg daily turnover	233.9k (NZ\$267k)	DPS (NZc)	6.1	6.1	6.1	6.1	Price / NTA	n/a	n/a	n/a	n/a
		Imputation (%)	100	100	100	100	Cash div yld (%)	4.2	4.2	4.2	4.2
		*Based on normalised profits					Gross div yld (%)	5.8	5.8	5.8	5.8

#### Our view

Following the strategic refresh in 2017 which saw divestment of non-core assets and rebuilding of the company through a range of new initiatives, we are impressed by the overall performance of the company two years into the five year transformation program. The group is well positioned to benefit from uplift in primary equity capital raisings while demonstrating increasing progress in the ability to leverage further opportunities in raising capital across a wide variety of asset classes. It is pleasing to see the introduction of wholesale debt issuance, while the group pursues opportunity in alternate equity channels such as direct listings and secondary listings. Although FY19 only saw two initial public offerings (IPOs) across the board, we remain sanguine over the long term.

Thematically, progress made in group-wide sustainability (ESG or environment, social and governance) initiatives is notable, with the introduction of five new ESG electronically traded funds (ETFs), listed green bonds and a carbon fund. We believe the demand for ETFs is likely to rise, particularly with the Smartshares brand refresh in FY20 and ongoing growth of Kiwisaver. Additionally, within Data and Insights we feel that ESG reporting could present significant opportunities given the mounting global shift towards sustainable finance. Although it has been a disappointing 12 months for dairy derivatives, we recognise the global scope that exists and would welcome initiatives to further increase speculative trading.

#### Outlook

NZX has provided FY20 EBITDA guidance of NZ\$30m–NZ\$33.5m (implying -4.5% to +6.7% growth). Its challenges over the next 12 months will be to maximise earnings through the economic cycle, to incentivise and retain listings, further increase liquidity in secondary markets, and leverage significant opportunities in the three key growth engines: (1) Dairy Derivatives, (2) Funds under Management, and (3) Wealth Technologies. We are excited about the growth potential across the group, in particular the Wealth Technologies business given the high barriers to entry with the division well placed to win a number of larger contracts, expected from FY21 onwards. However, with 38% of group revenue coming from Issuer Relationships, a slowdown in primary and secondary issuance would cause a significant headwind.

NZX Ltd (NZX)

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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.

<b>Profit and Loss Account (NZ\$m)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>Valuation Ratios</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Sales revenue	64.5	69.5	71.0	78.2	85.2	EV/EBITDA (x)	15.3	14.3	13.9	12.9	12.1
<b>Normalised EBITDA</b>	<b>28.6</b>	<b>31.4</b>	<b>33.1</b>	<b>35.9</b>	<b>38.3</b>	EV/EBIT (x)	20.4	19.8	19.7	18.3	17.3
Depreciation and amortisation	(7.2)	(8.6)	(8.0)	(8.6)	(9.2)	PE (x)	28.9	27.0	25.6	23.6	22.2
<b>Normalised EBIT</b>	<b>21.3</b>	<b>22.7</b>	<b>23.4</b>	<b>25.2</b>	<b>26.6</b>	Price/NTA (x)	n/a	n/a	>100x	67.8	50.4
Net interest	(1.3)	(2.0)	(1.9)	(2.0)	(1.9)	Free cash flow yield (%)	4.0	4.2	3.7	4.5	5.0
Associate income	0	0	0	0	0	Net dividend yield (%)	5.2	4.2	4.2	4.2	4.2
Tax	(6.1)	(5.9)	(6.0)	(6.5)	(6.9)	Gross dividend yield (%)	7.3	5.8	5.8	5.8	5.8
Minority interests	0	0	0	0	0	<b>Capital Structure</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>Normalised NPAT</b>	<b>13.7</b>	<b>14.6</b>	<b>15.5</b>	<b>16.8</b>	<b>17.8</b>	Interest cover EBIT (x)	16.8	11.6	12.0	12.8	13.9
Abnormals/other	(2.0)	0	0	0	0	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
<b>Reported NPAT</b>	<b>11.6</b>	<b>14.6</b>	<b>15.5</b>	<b>16.8</b>	<b>17.8</b>	Net debt/ND+E (%)	44.9	52.5	47.5	44.4	40.9
Normalised EPS (cps)	5.0	5.4	5.7	6.1	6.5	Net debt/EBITDA (x)	1.8	2.3	2.2	2.0	1.8
DPS (cps)	7.6	6.1	6.1	6.1	6.1	<b>Key Ratios</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>Growth Rates</b>	<b>2018A</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	Return on assets (%)	11.4	10.7	10.1	10.4	10.7
Revenue (%)	1.3	7.9	2.1	10.2	8.9	Return on equity (%)	22.2	22.9	19.2	18.5	17.7
EBITDA (%)	-0.6	9.8	5.5	8.4	6.9	Return on funds employed (%)	13.7	12.5	11.3	11.5	11.6
EBIT (%)	-3.9	6.3	3.3	7.7	5.6	EBITDA margin (%)	44.3	45.1	46.6	45.8	45.0
Normalised NPAT (%)	-13.5	7.1	5.6	8.3	6.3	EBIT margin (%)	33.1	32.6	33.0	32.3	31.3
Normalised EPS (%)	-14.9	7.1	5.6	8.3	6.3	Capex to sales (%)	14.6	11.9	14.8	12.1	11.1
Ordinary DPS (%)	0.0	0.0	0.0	0.0	0.0	Capex to depreciation (%)	583	416	1,952	2,015	2,307
<b>Cash Flow (NZ\$m)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	Imputation (%)	100	100	100	100	100
<b>EBITDA</b>	<b>28.6</b>	<b>31.4</b>	<b>33.1</b>	<b>35.9</b>	<b>38.3</b>	Pay-out ratio (%)	152	114	108	99	94
Working capital change	1.9	0.2	(0.1)	(0.5)	(0.5)	<b>Operating Performance</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Interest & tax paid	(7.3)	(7.8)	(8.0)	(8.5)	(8.8)	<b>Revenue (NZ\$m)</b>					
Other	1.8	1.1	0	0	0	Core markets	51.9	54.5	52.8	53.8	54.6
<b>Operating cash flow</b>	<b>24.9</b>	<b>24.8</b>	<b>25.0</b>	<b>26.8</b>	<b>29.0</b>	Funds services	12.5	14.6	17.7	24.0	30.1
Capital expenditure	(9.4)	(8.3)	(10.5)	(9.5)	(9.5)	Corporate	-	0.5	0.5	0.5	0.5
(Acquisitions)/divestments	(5.4)	(0.0)	0	0	0	<b>Total revenue</b>	<b>64.5</b>	<b>69.5</b>	<b>71.0</b>	<b>78.2</b>	<b>85.2</b>
Other	(2.1)	(1.3)	0	0	0	<b>Revenue % chg</b>					
<b>Funding available/(required)</b>	<b>8.0</b>	<b>15.2</b>	<b>14.5</b>	<b>17.3</b>	<b>19.5</b>	Core markets	-0.8%	4.9%	-3.1%	1.8%	1.6%
Dividends paid	(17.5)	(12.8)	(16.7)	(16.7)	(16.7)	Funds services	10.7%	16.4%	21.6%	35.5%	25.5%
Equity raised/(returned)	0	0	0	0	0	<b>Total revenue</b>	<b>1.3%</b>	<b>7.9%</b>	<b>2.1%</b>	<b>10.2%</b>	<b>8.9%</b>
<b>(Increase)/decrease in net debt</b>	<b>(9.5)</b>	<b>2.4</b>	<b>(2.2)</b>	<b>0.6</b>	<b>2.8</b>						
<b>Balance Sheet (NZ\$m)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>						
Working capital	5.4	5.2	5.3	5.9	6.4						
Fixed assets	2.8	2.6	5.0	6.5	8.0						
Intangibles	66.7	67.7	76.7	84.7	92.7						
Right of use asset	6.3	5.8	7.3	7.3	7.3						
Other assets	56.7	79.7	84.1	83.5	80.8						
<b>Total funds employed</b>	<b>137.9</b>	<b>161.0</b>	<b>178.4</b>	<b>187.8</b>	<b>195.1</b>						
Net debt/(cash)	50.1	70.8	73.0	72.4	69.6						
Lease liability	9.2	8.6	7.2	7.2	7.2						
Other liabilities	17.1	17.7	17.7	17.7	17.7						
Shareholder's funds	61.4	63.9	80.5	90.6	100.6						
Minority interests	0	0	0	0	0						
<b>Total funding sources</b>	<b>137.9</b>	<b>161.0</b>	<b>178.4</b>	<b>187.8</b>	<b>195.1</b>						

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

## FY19 Result summary

- Within the core business, Issuer Relationships saw targets for capital raises during the year exceed more than two times (NZ \$18.7m vs target NZ\$9.1m), equipoising a disappointing performance in the secondary markets division which saw total value traded at NZ\$37.8bn (down -0.9% against the prior year) vs a target of NZ\$41.0bn (in part due to change in trading and clearing fee structure over the last 18 months) and dairy derivative lots traded at 0.36m lots against a target of 0.45m.
- The number of trades across all of Secondary Markets were +50%, suggesting an increase in liquidity in the market with the benefit likely to fall in FY20 alongside a completed trading systems update.
- It was particularly encouraging to see retail debt listing generate NZ\$5.0bn in new capital and equity listing generate NZ\$7.9bn in secondary raisings. We believe fears in modal shift have been exaggerated, with growth across a range of asset classes including two new equity issuers, one new fund issuer and three new retail debt issuers joining the market.
- Data and Insights targeted a licence growth of +10% during the year, reporting +17% for the twelve months, while growth in dairy subscription product was set a deliverable target of +24% in FY18 but reported a disappointing -8.5%. This was in part due to divestment of the NZX Agri business impacting churn of dairy subscriptions and lower volatility in the second half of the year.
- Although the division did enjoy revenue uplift from audit backlogs, the underlying trend is robust and now the Agri business has been fully divested we expect a promising go-forward strategy with an operating margin of 86% reported for FY19.
- We were also delighted to see foundations laid for untouched geographic trading regions such as Asia and the Middle East; highlighting the worldwide potential for the Data and Insights division.
- Outside of the core business, the Funds Management business continues to gather momentum with total Funds Under Management growing +36% against an objective +14%, climbing in excess of NZ\$4bn in January 2020 (+NZ\$1bn in the year).
- The last 12 months saw eight new Smartshares released to the market (five ESG related) while initiatives taken to broaden wider appeal to Maori and Pacific demographics have been rolled out. With a brand refresh expected in 2020, further fee compression forecast and potential for accretive M&A activity, the division is well placed to perform strongly for FY20 and beyond.
- The Wealth Technologies business had benchmarked preparation for new client phase two migration and transition of current clients for the year end, resulting in Funds Under Administration +16% for the year and revenue +58%. Operating earnings, however, were still negative reflecting investment into headcount, other and professional fees.
- Guidance for the year saw Funds Under Administration of NZ\$5bn–NZ\$6bn with larger, new contracts wins expected from FY21.

## Changes to forecast FY20E

We adjust our earnings forecasts to include fund expenses net of Funds Under Management as reported, with a decrease in revenue fully offset by lower costs, leaving EBITDA unchanged before updating forecasts post FY19 results. Fund expenses include a combination of fixed costs such as outsourced fund accounting, administration costs and audit fees. Decreased NPAT reflects addition of lease interest and right of use asset depreciation to reflect adjustment for IFRS 16 accounting changes, while lower EPS forecasts reflect an increase in the weighted average number of ordinary shares for the year. Dividend per share estimates are unchanged.

**Figure 1. Changes to forecasts FY20E–FY22E (NZ\$m)**

	FY20E			FY21E			FY22E
	Old	New	% change	Old	New	% change	New
Revenue	70.5	71.0	0.7%	74.1	78.2	5.6%	85.2
EBITDA	31.6	33.1	4.8%	33.7	35.9	6.5%	38.3
NPAT	15.7	15.5	-1.5%	17.7	16.8	-5.4%	17.8
EPS	5.8	5.6	-3.8%	6.6	6.0	-8.5%	6.4
DPS	6.1	6.1	0.0%	6.1	6.1	0.0%	6.1

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.

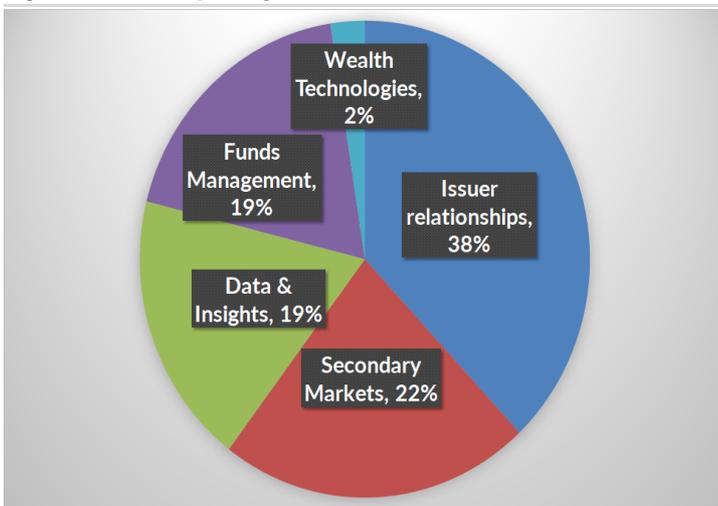
### Upcoming catalysts/events

- **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

### Risk factors

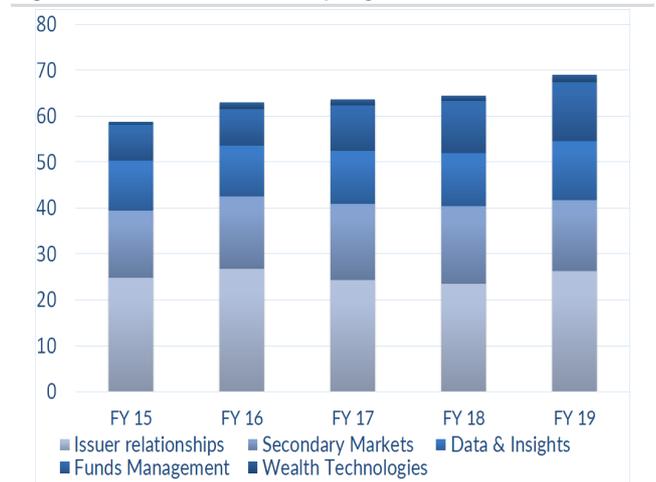
- **Market slowdown:** Earnings growth is reliant on an active market in trading and capital raising. Any economic or market slowdown would create a material headwind.

Figure 2. Revenue per segment FY19



Source: Forsyth Barr analysis, Company Notes

Figure 3. Growth in revenue by segment FY15-FY19



Source: Forsyth Barr analysis, Company Notes

**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

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

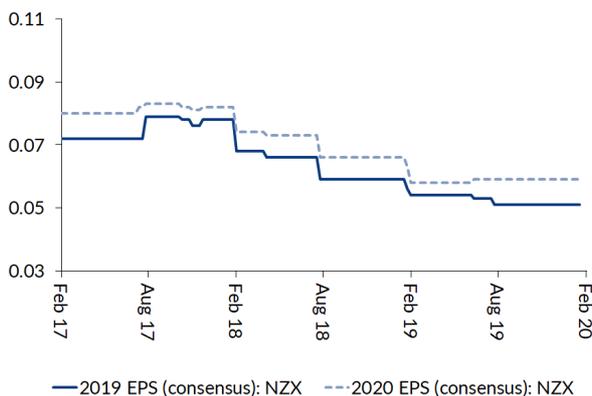
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

**Figure 6. International valuation comparisons**

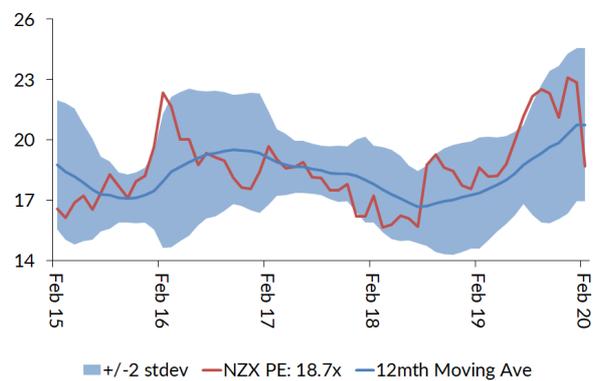
Company (metrics re-weighted to reflect NZX's balance date - December)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
NZX	NZX NZ	NZ\$1.45	NZ\$389	25.6x	23.6x	13.9x	12.8x	19.6x	18.2x	4.2%
ASX	ASX AT	A\$82.25	A\$15,923	31.1x	29.9x	22.1x	21.1x	24.0x	22.8x	3.0%
CME Group Inc	CME US	US\$213.13	US\$76,378	29.2x	27.3x	22.7x	21.3x	24.6x	22.7x	3.2%
Nasdaq Inc	NDAQ US	US\$116.20	US\$19,047	21.5x	19.9x	15.8x	14.8x	n/a	n/a	1.8%
London Stock Exchange Group PLC	LSE LN	£82.20	£28,749	41.9x	36.8x	24.1x	22.5x	29.0x	26.9x	0.9%
Deutsche Boerse AG	DB1 GR	€153.50	€29,165	25.6x	24.1x	n/a	16.7x	20.4x	19.0x	2.1%
Intercontinental Exchange Inc	ICE US	US\$96.86	US\$53,607	23.1x	21.1x	17.3x	16.2x	23.9x	n/a	1.3%
TMX Group	XCN	C\$117.10	C\$6,585	20.0x	18.4x	14.8x	13.9x	17.3x	16.0x	2.4%
Hong Kong Exchanges & Clearing	388 HK	HK\$269.60	HK\$340,020	35.6x	31.8x	9.5x	8.5x	10.3x	9.0x	2.8%
Singapore Exchange	SGX SP	S\$9.22	S\$9,873	22.9x	22.9x	15.6x	15.9x	18.5x	17.8x	3.5%
			<b>Compco Average:</b>	<b>27.9x</b>	<b>25.8x</b>	<b>17.7x</b>	<b>16.8x</b>	<b>21.0x</b>	<b>19.2x</b>	<b>2.4%</b>
			<b>NZX Relative:</b>	<b>-8%</b>	<b>-8%</b>	<b>-22%</b>	<b>-24%</b>	<b>-6%</b>	<b>-5%</b>	<b>79%</b>

EV = Current Market Cap + Actual Net Debt

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

**Figure 7. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 8. One year forward PE (x)**


Source: Forsyth Barr analysis

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