

NZX

1H20 preview — Quick off the Blocks

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OUTPERFORM

Our analysis of NZX's monthly operating metrics suggests the company has performed well over the last six months, with standout performances in the Secondary Market and Data & Insights divisions. Consequently, we update our forecasts before the interim result on the 13th August. We lift our FY20 EBITDA forecasts to NZ\$33m vs current guidance of NZ\$30–33.5m. Our current numbers include +22% EBITDA growth in 1H20 and a conservative -9% in 2H20. This is partially due to a strong 2H19 and a softening of COVID-19 tailwinds. Given the strong start to the year, we see upside risk to full year forecasts and potential for a tightening or raising of full year guidance if better than expected trends continue. We raise our target price to NZ\$1.65 due to a contract win in the Wealth Technologies business and reiterate our OUTPERFORM recommendation.

NZX Code	NZX	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.46	NPAT* (NZ\$m)	14.6	16.0	17.3	20.0	EV/EBITDA	12.7	12.0	11.3	10.2
Target price	NZ\$1.65	EPS* (NZc)	5.3	5.7	6.2	7.1	EV/EBIT	17.4	16.4	15.2	13.3
Risk rating	Medium	EPS growth* (%)	5.4	8.7	7.3	15.4	PE	27.6	25.4	23.7	20.5
Issued shares	277.2m	DPS (NZc)	6.1	6.1	6.1	7.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$405m	Imputation (%)	100	100	100	100	Cash div yld (%)	4.2	4.2	4.2	4.8
Avg daily turnover	278.6k (NZ\$364k)	*Based on normalised profits					Gross div yld (%)	5.8	5.8	5.8	6.7

Issuer Relationships

The division has benefited from a number of secondary equity capital raises across 1H. At this stage we do not include any IPOs in our FY20 numbers but see NZX's focus on promoting direct listings as positive.

Secondary Markets

Total value traded has exceeded expectations throughout the year with March and April reporting a period of super trading driven by high volatility. This has been driven by both underlying growth and increased retail participation. Our H2 numbers forecast a softening of total traded value, but comfortably ahead of the prior year.

Data & Insights

Total terminals and licences reported have remained at elevated levels since April. We believe demand growth will continue for the year with increased interest and participation in New Zealand capital markets both domestically and internationally.

Funds Under Management

Total Funds Under Administration continues to recover from a low in March with four new Smartshares ETFs added to the portfolio in July. We expect to see additional funds added in the second half.

Wealth Technologies

Total Funds Under Administration saw a sharp increase in June operating stats with the additional of a new (unnamed client). At this stage we still expect Saturn and Hobson to be fully onboarded by FY20.

NZX Ltd (NZX)

Priced as at 05 Aug 2020 (NZ\$)

1.46

12-month target price (NZ\$)*

1.65

Expected share price return	13.0%
Net dividend yield	4.2%
Estimated 12-month return	17.2%

Spot valuations (NZ\$)

1.DCF	1.65
2.n/a	n/a
3.n/a	n/a

Key WACC assumptions

Risk free rate	2.00%
Equity beta	0.85
WACC	8.1%
Terminal growth	1.5%

DCF valuation summary (NZ\$m)

Total firm value	453
(Net debt)/cash	9
Less: Capitalised operating leases	#N/A
Value of equity	#N/A

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	64.5	69.5	74.8	78.5	85.3
Normalised EBITDA	28.6	31.4	32.9	34.9	38.7
Depreciation and amortisation	(7.2)	(8.6)	(8.8)	(8.9)	(9.1)
Normalised EBIT	21.3	22.8	24.2	25.9	29.6
Net interest	(1.3)	(2.0)	(1.9)	(1.9)	(1.9)
Associate income	0	0	0	0	0
Tax	(6.1)	(5.9)	(6.2)	(6.7)	(7.8)
Minority interests	0	0	0	0	0
Normalised NPAT	13.7	14.6	16.0	17.3	20.0
Abnormals/other	(2.0)	0	0	0	0
Reported NPAT	11.6	14.6	16.0	17.3	20.0
Normalised EPS (cps)	5.0	5.3	5.7	6.2	7.1
DPS (cps)	7.6	6.1	6.1	6.1	7.0

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	-14.4	7.9	7.6	5.0	8.6
EBITDA (%)	-1.5	9.8	5.1	5.9	11.0
EBIT (%)	-2.8	6.7	6.2	7.3	14.2
Normalised NPAT (%)	-7.8	7.1	9.4	7.9	15.4
Normalised EPS (%)	-8.5	5.4	8.7	7.3	15.4
Ordinary DPS (%)	0.0	0.0	0.0	0.0	14.8

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	28.6	31.4	32.9	34.9	38.7
Working capital change	1.7	0.2	(0.4)	(0.3)	(0.5)
Interest & tax paid	(7.3)	(7.8)	(8.2)	(8.6)	(9.7)
Other	2.0	1.1	0	0	0
Operating cash flow	24.9	24.8	24.4	26.0	28.6
Capital expenditure	(9.4)	(8.3)	(9.5)	(9.6)	(9.8)
(Acquisitions)/divestments	(5.4)	(0.0)	0	0	0
Other	(2.1)	(1.3)	0	0	0
Funding available/(required)	8.0	15.2	14.9	16.3	18.8
Dividends paid	(17.5)	(12.8)	(13.8)	(17.0)	(18.4)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	(9.5)	2.4	1.1	(0.7)	0.4

Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Working capital	5.4	5.2	5.6	5.9	6.4
Fixed assets	2.8	2.6	2.7	2.7	2.8
Intangibles	66.7	67.7	68.9	69.9	70.9
Right of use asset	6.3	5.8	5.6	5.3	5.1
Other assets	56.7	79.7	79.7	79.7	79.7
Total funds employed	137.9	161.0	162.4	163.6	164.9
Net debt/(cash)	(6.6)	(8.9)	(10.0)	(9.3)	(9.7)
Lease liability	8.1	7.2	6.6	6.3	6.0
Other liabilities	75.0	98.8	99.0	99.0	98.9
Shareholder's funds	61.4	63.9	66.8	67.6	69.7
Minority interests	0	0	0	0	0
Total funding sources	137.9	161.0	162.4	163.6	164.9

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

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	13.8	12.7	12.0	11.3	10.2
EV/EBIT (x)	18.5	17.4	16.4	15.2	13.3
PE (x)	29.1	27.6	25.4	23.7	20.5
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	3.8	4.1	3.7	4.0	4.6
Net dividend yield (%)	5.2	4.2	4.2	4.2	4.8
Gross dividend yield (%)	7.2	5.8	5.8	5.8	6.7

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	16.8	11.7	12.6	13.6	15.7
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-12.0	-16.1	-17.6	-15.9	-16.1
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Key Ratios	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	11.4	10.7	11.2	12.0	13.6
Return on equity (%)	22.2	22.9	24.0	25.6	28.7
Return on funds employed (%)	27.9	30.7	31.6	32.9	36.4
EBITDA margin (%)	44.3	45.1	44.0	44.4	45.4
EBIT margin (%)	33.1	32.7	32.3	33.0	34.7
Capex to sales (%)	14.6	11.9	12.7	12.3	11.5
Capex to depreciation (%)	583	416	495	509	525
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	152	116	106	99	98

Operating Performance	2018A	2019A	2020E	2021E	2022E
Revenue (NZ\$m)					
Core markets	51.9	54.5	58.5	58.3	58.5
Funds services	12.5	14.6	16.0	19.9	26.5
Corporate	-	0.5	0.3	0.3	0.3
Total revenue	64.5	69.5	74.8	78.5	85.3
Revenue % chg					
Core markets	-0.8%	4.9%	7.4%	-0.3%	0.3%
Funds services	10.7%	16.4%	9.9%	24.4%	33.1%
Total revenue	1.3%	7.9%	7.6%	5.0%	8.6%

EBITDA (NZ\$m)					
Core markets	39.5	41.2	44.8	43.6	43.5
Funds services	4.8	5.2	5.9	7.5	12.4
Corporate	(15.7)	(15.0)	(17.7)	(16.3)	(17.2)
Total EBITDA	28.6	31.4	32.9	34.9	38.7

EBITDA % chg					
Core markets	-2.6%	4.2%	8.8%	-2.6%	-0.4%
Funds services	74.7%	8.6%	13.8%	27.9%	65.1%
Total EBITDA	-1.5%	9.8%	5.1%	5.9%	11.0%

Changes to forecasts

We update our FY20 forecast numbers ahead of interim results on 13th August. The predominant drivers to raised forecasts are a contract win for the Wealth Technologies business with increased net cash inflows in the Funds Management business through the addition of new funds. Data and Insights also continues to perform strongly, while FY20E is likely to see a surge in cash traded value as a result of COVID-19.

Figure 1. Changes to full year forecasts

	FY20E			FY21E			FY22E		
(NZ\$'000)	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	70,818	74,814	5.6%	75,979	78,532	3.4%	83,388	85,319	2.3%
EBITDA	31,124	32,950	5.9%	34,285	34,880	1.7%	38,360	38,722	0.9%
EBITDA margin %	43.9%	44.0%	0.1%	45.1%	44.4%	-0.7%	46.0%	45.4%	-0.6%
NPAT	14,705	16,026	9.0%	16,862	17,299	2.6%	19,695	19,966	1.4%
EPS (cent)	5.3	5.8	9.0%	6.0	6.2	2.6%	7.1	7.2	1.4%
DPS (cent)	6.1	6.1	0.0%	6.1	6.1	0.0%	7.0	7.0	0.0%

Source: Forsyth Barr analysis

Divisional interim forecasts

We expect interim results to show continued growth across the five divisions with the standout performer the Secondary Markets division, which benefited from underlying growth in addition to a period of super-trading in March and April.

Issuer Relationships has benefited from a number of secondary equity raises despite the COVID-19 impact to the IPO market.

Data and Insights has seen a significant increase in the number of average terminals and licences recorded across the half, highlighting the increased interest and participation in New Zealand capital markets.

Funds Under Management continues to steadily grow despite exposure to international equity markets with four new ETFs added to the portfolio in July – we expect to see more added across H2.

Wealth Technologies has increased Funds Under Administration to NZ\$3.1bn for the half, partially due to a contract win with a new (unnamed client).

Figure 2. Divisional interim revenue forecasts

Revenue NZ\$m	1H19	1H20E	% chg
Issuer Relationships	12,115	13,061	8%
Secondary Markets	7,070	10,187	44%
Data & Insights	6,349	7,569	19%
FUM	6,305	6,604	5%
Wealth Technologies	838	972	16%
Corporate	186	109	-41%
Total	32,863	38,502	17%

Source: Forsyth Barr analysis

Figure 3. Divisional interim EBITDA forecasts

EBITDA NZ\$m	1H19	1H20E	% chg
Issuer Relationships	9,448	10,440	11%
Secondary Markets	3,914	6,799	74%
Data & Insights	5,422	6,702	24%
FUM	3,185	3,051	-4%
Wealth Technologies	-186	-535	187%
Corporate	-7,338	-8,893	21%
Total	14,445	17,564	22%

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. **OUTPERFORM.**

Key drivers

- **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.

Other key company and industry issues

- **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.

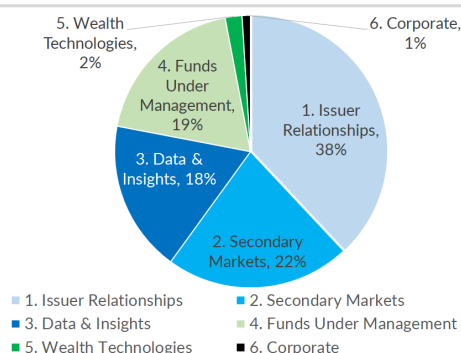
Upcoming catalysts/events

- **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

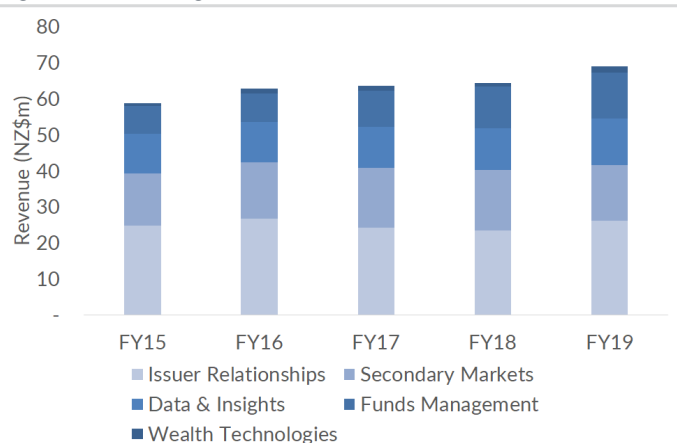
- **Market slowdown:** Earnings growth is reliant on an active market in trading and capital raising. Any economic or market slowdown would create a material headwind.

Figure 4. Revenue breakdown FY19

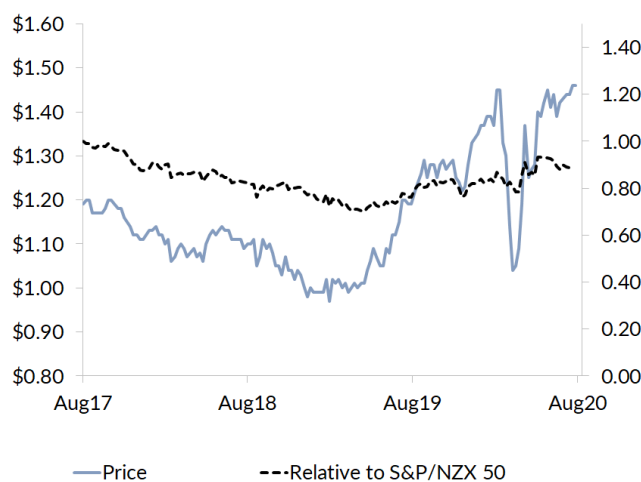


Source: Forsyth Barr analysis

Figure 5. Revenue growth by division FY15–FY19



Source: Forsyth Barr analysis

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
Aberdeen Asset Management Limited	9.1%
ACC	5.3%

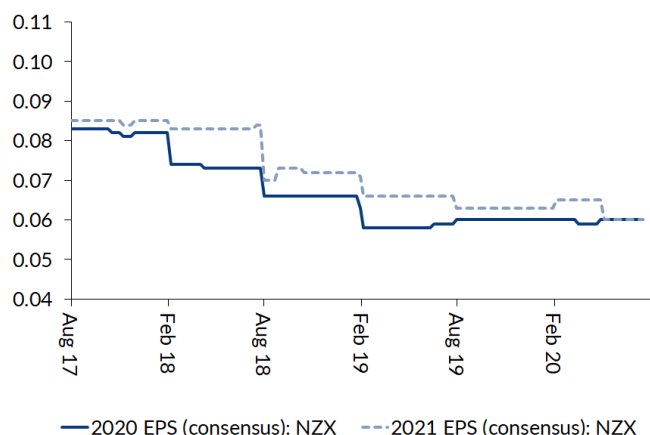
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

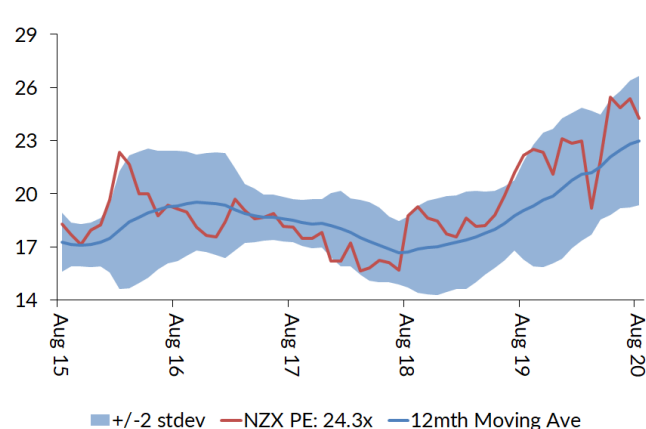
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect NZX's balance date - December)										
NZX	NZX NZ	NZ\$1.46	NZ\$405	25.4x	23.7x	12.0x	11.3x	16.4x	15.3x	4.2%
ASX	ASX AT	A\$84.87	A\$16,430	32.8x	32.6x	23.1x	22.4x	25.0x	24.2x	2.8%
CME GROUP INC	CME US	US\$163.13	US\$58,497	23.0x	23.0x	18.2x	17.9x	19.4x	18.9x	4.1%
NASDAQ INC	NDAQ US	US\$129.70	US\$21,280	22.1x	22.1x	16.3x	16.2x	n/a	n/a	1.6%
LONDON STOCK EXCHANGE GROUP	LSE LN	£84.38	£29,655	40.9x	33.9x	21.7x	15.3x	27.4x	20.2x	1.0%
DEUTSCHE BOERSE AG	DB1 GR	€156.30	€29,697	23.7x	23.4x	15.7x	15.3x	18.2x	17.8x	2.1%
INTERCONTINENTAL EXCHANGE IN	ICE US	US\$95.78	US\$52,035	21.6x	20.8x	16.4x	16.0x	19.2x	18.8x	1.4%
TMX GROUP	X CN	C\$137.14	C\$7,753	22.8x	21.7x	16.5x	15.9x	19.5x	18.2x	2.1%
HONG KONG EXCHANGES & CLEAR	388 HK	HK\$376.80	HK\$477,721	45.0x	39.2x	14.4x	12.5x	15.0x	12.7x	2.3%
SINGAPORE EXCHANGE	SGX SP	S\$8.73	S\$9,332	20.7x	21.5x	14.0x	14.4x	16.5x	17.4x	3.8%
Compco Average:				28.1x	26.5x	17.4x	16.2x	20.0x	18.5x	2.3%
NZX Relative:				-9%	-10%	-31%	-30%	-18%	-18%	78%

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 9. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 10. One year forward PE (x)


Source: Forsyth Barr analysis

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