

NZX

Building up a Head of Steam

JAMIE FOULKES

jamie.foulkes@forsythbarr.co.nz
+64 4 491 2217

OUTPERFORM

NZX reported a robust 3Q20 trading update result despite a slowdown in COVID-19 tailwinds. Both cash valued traded and total capital raised during the quarter exceeded NZX's targets for the full year, which were set out in February 2020. We marginally increase our FY20 EBITDA forecast to NZ\$33.2m against company guidance of NZ\$30-\$33.5m. We remain positive on the company's outlook with NZX well placed to benefit from either bull or bear market scenario given its exposure to global equities through its Funds Under Management business, and Secondary Markets set to benefit from future periods of high volatility. We also expect both Saturn Advisory (NZ\$0.5bn FUM) and Hobson Wealth (NZ\$3.0bn FUM) to be added to the Wealth Technologies platform in the coming weeks, which is a key catalyst in our opinion. Given its strong balance sheet, diversified revenue streams and defensive qualities NZX remains attractive and we raise our target price to NZ\$2.03.

NZX Code	NZX	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.74	NPAT* (NZ\$m)	14.6	16.2	17.3	19.9	PE	32.9	30.0	28.3	24.6
Target price	NZ\$2.03	EPS* (NZc)	5.3	5.8	6.1	7.1	EV/EBIT	20.8	19.3	18.1	15.9
Risk rating	Medium	EPS growth* (%)	5.4	9.7	6.1	15.2	EV/EBITDA	15.1	14.2	13.8	12.5
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\$482m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.5	3.5	3.5	4.0
Avg daily turnover	286.7k (NZ\$396k)	*Based on normalised profits					Gross div yld (%)	4.9	4.9	4.9	5.6

What's changed?

- **FY20 EBITDA:** Increased from NZ\$33.1m to NZ\$33.2m
- **Target price:** Increased from NZ\$1.95 to NZ\$2.03

3Q20 result solid given tough prior year comparatives

NZX 3Q20 divisional revenue performances was broadly as expected, with total 3Q20 revenue flat against 3Q19 (+0.3%). This was a good result considering the tough prior year comparative, driven predominantly by an exceptional level of capital raised. Highlights include Secondary Markets division reporting a revenue increase of +16% for the quarter while combined data terminals and licences revenue were up +15% in the Data division. This offset a reduced level of capital raised, with Issuer Relationship revenue down -9%.

Dairy derivatives disappoint but likely to see longer term stimulus with Singapore exchange deal

While dairy derivatives remain subdued, we are encouraged that NZX has entered into stage one of an agreement with the Singapore stock exchange to list NZX's suite of dairy derivative commodities for FY21. While Dairy Derivatives make up just 2.2% of FY19 revenue, this would allow distribution to 80 of Singapore's participants in efforts to grow the number of lots traded.

Promising 4Q20 outlook for both Core divisions and Funds Management

We expect the core divisions to continue a strong performance into 4Q20, underpinned by value traded in Secondary Markets and terminal growth in the Data division. Both Saturn Advisory and Hobson Wealth remain on track to be onboarded in the Wealth Tech division by FY20 year end, while we would be unsurprised to see further additions to the Smartshares ETF portfolio in 4Q20.

NZX Ltd (NZX)

Priced as at 26 Oct 2020 (NZ\$)

1.74

12-month target price (NZ\$)*

2.03

Expected share price return

16.7%

Net dividend yield

3.5%

Estimated 12-month return

20.2%

Spot valuations (NZ\$)

1.DCF

2.03

2.n/a

n/a

3.n/a

n/a

Key WACC assumptions

Risk free rate

1.30%

Equity beta

0.97

WACC

6.9%

Terminal growth

1.5%

DCF valuation summary (NZ\$m)

Total firm value

561

(Net debt)/cash

9

Less: Capitalised operating leases

(28)

Value of equity

542

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	64.5	69.5	74.5	78.2	86.0
Normalised EBITDA	28.6	31.4	33.3	34.3	37.9
Depreciation and amortisation	(7.2)	(8.6)	(8.8)	(8.2)	(8.1)
Normalised EBIT	21.3	22.8	24.5	26.1	29.8
Net interest	(1.3)	(2.0)	(1.9)	(1.9)	(1.9)
Associate income	0	0	0	0	0
Tax	(6.1)	(5.9)	(6.5)	(6.9)	(8.0)
Minority interests	0	0	0	0	0
Normalised NPAT	13.7	14.6	16.2	17.3	19.9
Abnormals/other	(2.0)	0	0	0	0
Reported NPAT	11.6	14.6	16.2	17.3	19.9
Normalised EPS (cps)	5.0	5.3	5.8	6.1	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	7.1	5.0	9.9
EBITDA (%)	-1.5	9.8	6.1	3.2	10.3
EBIT (%)	-2.8	6.7	7.6	6.6	14.0
Normalised NPAT (%)	-7.8	7.1	10.5	6.7	15.2
Normalised EPS (%)	-8.5	5.4	9.7	6.1	15.2
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	33.3	34.3	37.9
Working capital change	1.7	0.2	(0.4)	(0.3)	(0.6)
Interest & tax paid	(7.3)	(7.8)	(8.4)	(8.9)	(9.9)
Other	2.0	1.1	0	0	0
Operating cash flow	24.9	24.8	24.5	25.2	27.4
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	15.0	15.6	17.6
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	1.2	(1.4)	(0.8)

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	70.7	72.7
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	164.3	166.7
Net debt/(cash)	(6.6)	(8.9)	(10.0)	(8.6)	(7.8)
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	69.6
Minority interests	0	0	0	0	0
Total funding sources	137.9	161.0	162.4	164.3	166.7

* 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)	16.5	15.1	14.2	13.8	12.5
EV/EBIT (x)	22.1	20.8	19.3	18.1	15.9
PE (x)	34.7	32.9	30.0	28.3	24.6
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	3.2	3.4	3.1	3.2	3.6
Net dividend yield (%)	4.4	3.5	3.5	3.5	4.0
Gross dividend yield (%)	6.1	4.9	4.9	4.9	5.6

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	16.8	11.7	12.8	13.7	15.7
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-12.0	-16.1	-17.7	-14.6	-12.6
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	11.4	12.1	13.7
Return on equity (%)	22.2	22.9	24.2	25.5	28.6
Return on funds employed (%)	27.9	30.7	31.7	32.5	35.2
EBITDA margin (%)	44.3	45.1	44.7	43.9	44.0
EBIT margin (%)	33.1	32.7	32.9	33.4	34.6
Capex to sales (%)	14.6	11.9	12.8	12.3	11.4
Capex to depreciation (%)	583	416	495	509	525
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	152	116	105	99	99

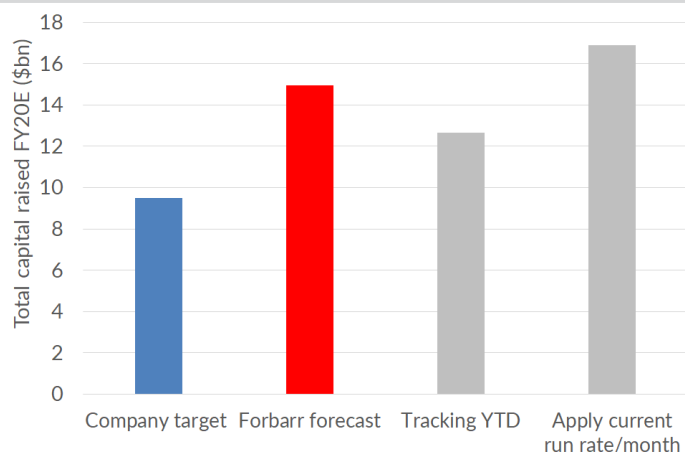
Operating Performance	2018A	2019A	2020E	2021E	2022E
Revenue (NZ\$m)					
Core markets	51.9	54.5	58.3	56.7	57.8
Funds services	12.5	14.6	15.9	21.3	27.9
Corporate	-	0.5	0.3	0.3	0.3
Total revenue	64.5	69.5	74.5	78.2	86.0
Revenue % chg					
Core markets	-0.8%	4.9%	7.0%	-2.8%	2.0%
Funds services	10.7%	16.4%	9.1%	33.7%	31.3%
Total revenue	1.3%	7.9%	7.1%	5.0%	9.9%

EBITDA (NZ\$m)					
Core markets	39.5	41.2	44.6	42.1	42.7
Funds services	4.8	5.2	5.1	8.7	12.6
Corporate	(15.7)	(15.0)	(16.4)	(16.4)	(17.4)
Total EBITDA	28.6	31.4	33.3	34.3	37.9
EBITDA % chg					
Core markets	-2.6%	4.2%	8.3%	-5.6%	1.5%
Funds services	74.7%	8.6%	-1.9%	70.8%	45.8%
Total EBITDA	-1.5%	9.8%	6.1%	3.2%	10.3%

Core divisional targets reached with three months to go

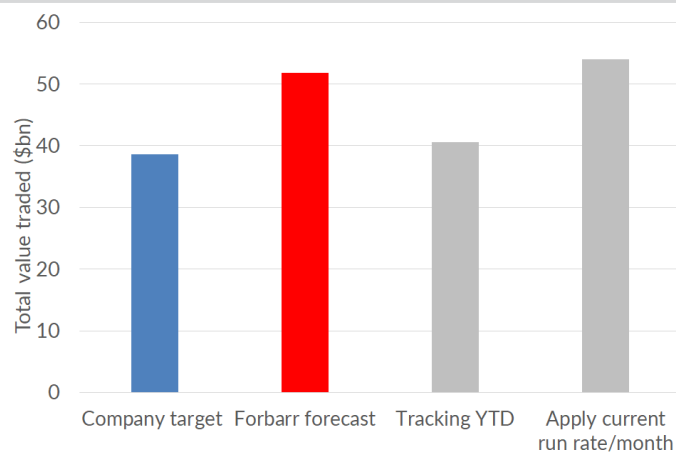
NZX set a target of NZ\$9.5bn total capital raised for the year, reaching NZ\$10.5bn in August 2020 and NZ\$12.7bn as of 3Q20. We forecast total capital raised of NZ\$15.0bn for FY20. The company's target for total value traded was set at NZ\$38.6bn, reaching NZ\$40.5bn as of 3Q20. We forecast total value traded for FY20 to be NZ\$51.8bn.

Figure 1. Total capital raised company guidance vs forecast



Source: Forsyth Barr analysis, NZX

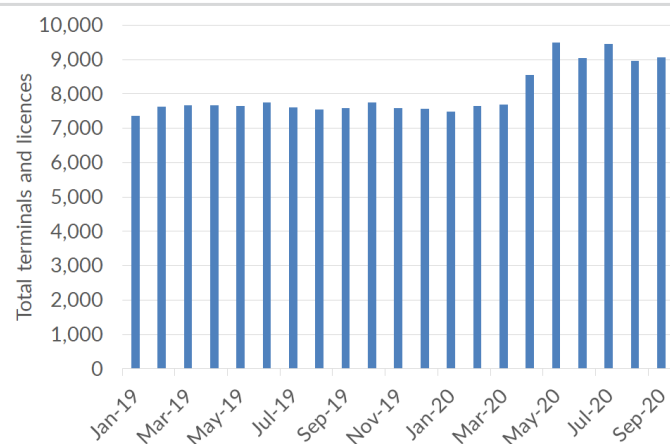
Figure 2. Total value traded company guidance vs forecast



Source: Forsyth Barr analysis, NZX

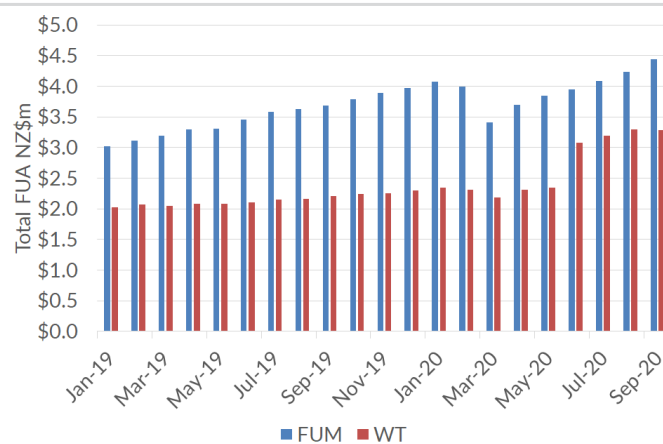
Total monthly terminal and licence numbers remain elevated into 3Q20 post COVID-19 which we expect to see continue. Within the funds businesses, Funds Under Management saw total FUM exceed previous highs, partly aided by four new ETFs added in July. The Wealth Technologies saw the addition of JBWere to the platform and we expect Saturn and Hobson to be onboarded by FY20.

Figure 3. Monthly total terminal and licences FY20



Source: Forsyth Barr analysis, NZX

Figure 4. Monthly total FUM and FUA FY20



Source: Forsyth Barr analysis, NZX

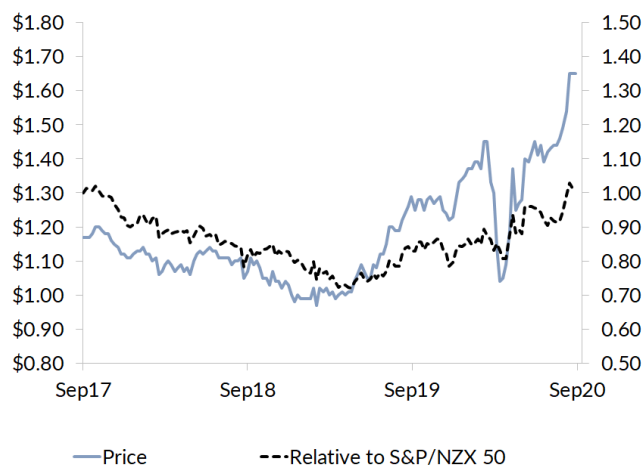
Changes to forecast

We update our forecasts to include NZX's latest monthly operating statistics, where we slightly decrease total capital raised in outer years and increase both total value traded in secondary markets and terminal numbers in the data division.

Figure 5. NZX changes to forecast FY20E-FY22E

(NZ\$'000)	FY20E			FY21E			FY22E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	74,970	74,491	-0.6%	78,121	78,219	0.1%	85,099	85,997	1.1%
EBITDA	33,071	33,266	0.6%	34,162	34,339	0.5%	37,543	37,865	0.9%
EBITDA margin %	44.1%	44.7%	0.5%	43.7%	43.9%	0.2%	44.1%	44.0%	-0.1%
NPAT	16,035	16,176	0.9%	17,136	17,264	0.7%	19,653	19,885	1.2%
EPS (cent)	5.8	5.8	0.9%	6.1	6.2	0.7%	7.0	7.1	1.2%
DPS (cent)	6.1	6.1	0.0%	6.1	6.1	0.0%	7.0	7.0	0.0%

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%

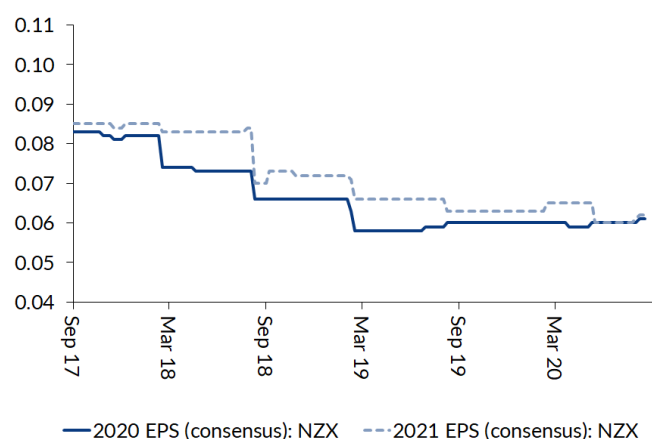
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

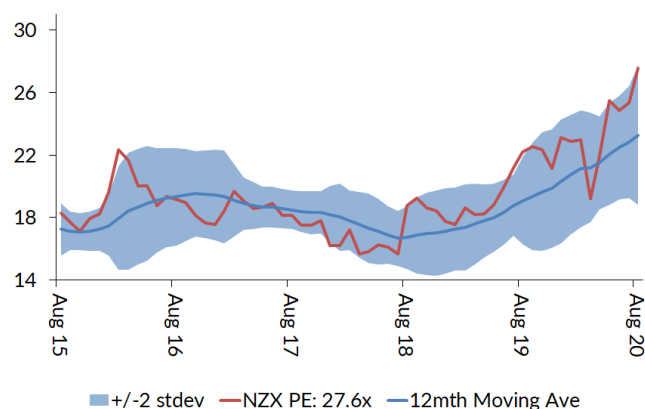
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect NZX's balance date - December)										
NZX	NZX NZ	NZ\$1.74	NZ\$482	30.0x	28.3x	14.2x	13.8x	19.3x	18.1x	3.5%
ASX	ASX AT	A\$82.11	A\$15,896	32.2x	32.2x	21.5x	21.3x	23.1x	23.0x	2.8%
CME GROUP INC	CME US	US\$164.56	US\$59,014	23.7x	23.6x	18.7x	18.6x	19.7x	18.7x	4.1%
NASDAQ INC	NDAQ US	US\$131.74	US\$21,639	21.9x	21.7x	16.0x	16.0x	n/a	n/a	1.5%
LONDON STOCK EXCHANGE GROUP	LSE LN	£85.16	£29,929	41.6x	35.3x	23.2x	15.7x	28.2x	19.5x	1.0%
DEUTSCHE BOERSE AG	DB1 GR	€137.60	€26,144	21.3x	20.7x	14.2x	13.8x	16.3x	15.7x	2.3%
INTERCONTINENTAL EXCHANGE IN	ICE US	US\$99.71	US\$54,104	22.5x	21.2x	16.5x	15.2x	18.0x	17.1x	1.3%
TMX GROUP	X CN	C\$134.55	C\$7,617	22.6x	21.4x	16.7x	15.8x	20.2x	18.4x	2.1%
HONG KONG EXCHANGES & CLEAR	388 HK	HK\$370.00	HK\$469,100	42.7x	37.0x	23.5x	20.5x	24.9x	20.9x	2.4%
SINGAPORE EXCHANGE	SGX SP	S\$9.00	S\$9,641	21.2x	21.9x	14.4x	14.7x	16.9x	17.4x	3.6%
Compco Average:				27.8x	26.1x	18.3x	16.8x	20.9x	18.8x	2.4%
NZX Relative:				8%	8%	-22%	-18%	-8%	-4%	49%

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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