NEW ZEALAND EQUITY RESEARCH | FINANCIALS | EXCHANGE & MARKETS OPERATOR
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NZX
Investor Day Insights

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OUTPERFORM

NZX's Investor Day reinforced our positive view of the company demonstrated by a strong performance across all five of its divisions while highlighting the progress made since the strategic reset in 2017. With better than expected revenue growth in the Funds Management businesses (including the onboarding of Hobson Wealth to its Wealth Technologies platform in November) the company is on track for a strong FY20 result in our view. We remain attracted to its 1) stable balance sheet, 2) wide diversification of revenue streams, 3) sensible management and 4) momentum building in its growth divisions. We retain our OUTPERFORM rating and see future contract wins in the Wealth Technologies division as a likely catalyst for the stock.

NZX Code	NZX
Share price	NZ$1.84
Target price	NZ$2.08
Risk rating	Medium
Issued shares	277.2m
Market cap	NZ$510m
Avg daily turnover	302.0k (NZ$430k)

Financials: Dec/	19A	20E	21E	22E
NPAT* (NZ$m)	14.6	16.2	17.2	20.1
EPS* (NZc)	5.3	5.8	6.1	7.2
EPS growth* (%)	5.4	10.1	5.5	16.8
DPS (NZc)	6.1	6.1	6.1	7.0
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	19A	20E	21E	22E
PE	34.8	31.7	30.0	25.7
EV/EBIT	22.4	20.7	19.4	16.8
EV/EBITDA	16.3	15.2	14.8	13.3
Price / NTA	n/a	n/a	n/a	n/a
Cash div yld (%)	3.3	3.3	3.3	3.8
Gross div yld (%)	4.6	4.6	4.6	5.3

What's changed?

- **Target price:** We lift our target price to NZ$2.08 in light of increased FUM and FUA in the Funds Management businesses

Guidance tightened to top end of previous range

NZX has tightened its FY20 EBITDA guidance with an expectation of finishing in the upper half of its previously guided NZ$30m–NZ$33.5m range. We forecast FY20 EBITDA of NZ$33.3m, unchanged given the increase in revenue forecasts offset by additional infrastructure costs.

Ambitious IPO targets set for coming years

With three IPOs expected for FY20, NZX remains confident in its future pipeline. We are encouraged by the proactive approach taken in its ambition to cold call all 1,200 unlisted NZ business of greater than NZ$30m revenue, with an internal target of achieving five IPOs in FY21, seven IPOs per annum in the medium term and 10+ IPOs per annum over the longer term.

NZX confident in strong Wealth Tech pipeline

The Wealth Technologies division is currently in talks with five prospective clients, of which three it is confident on winning. It estimates the five clients to have a combined total FUA of NZ$9bn and as a result we apply an average of NZ$1.8bn per prospective client, where winning three would give the Wealth Technologies business an additional NZ$5.4bn in FUA in FY21 and would increase group EBITDA by NZ$1.7m by our estimates.

Strong FUM performance driven by net cash inflows

The Funds Under Management division has seen a Year to Date (YTD) net cash inflow of NZ$634m (+33% against the prior year period) with total FUM for the ten months +21% against an FY20 target of +14%. FUM has grown at an impressive three year Compound Average Growth Rate (CAGR) of +20% and we expect to see additional funds added in FY21.

FORSYTH BARR

NZX Ltd (NZX)

Priced as at 02 Dec 2020 (NZ$)	1.84

12-month target price (NZ$)*	2.08
Expected share price return	13.0%
Net dividend yield	3.3%
Estimated 12-month return	16.4%

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.97
WACC	6.9%
Terminal growth	1.5%

Profit and Loss Account (NZ$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	64.5	69.5	74.8	79.0	86.5
Normalised EBITDA	**28.6**	**31.4**	**33.3**	**34.3**	**38.2**
Depreciation and amortisation	(7.2)	(8.6)	(8.8)	(8.2)	(8.1)
Normalised EBIT	**21.3**	**22.8**	**24.6**	**26.1**	**30.1**
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)	(8.1)
Minority interests	0	0	0	0	0
Normalised NPAT	**13.7**	**14.6**	**16.2**	**17.2**	**20.1**
Abnormals/other	(2.0)	0	0	0	0
Reported NPAT	**11.6**	**14.6**	**16.2**	**17.2**	**20.1**
Normalised EPS (cps)	5.0	5.3	5.8	6.1	7.2
DPS (cps)	7.6	6.1	6.1	6.1	7.0

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	-14.4	7.9	7.5	5.6	9.6
EBITDA (%)	-1.5	9.8	6.3	2.8	11.4
EBIT (%)	-2.8	6.7	7.9	6.0	15.6
Normalised NPAT (%)	-7.8	7.1	10.8	6.1	16.8
Normalised EPS (%)	-8.5	5.4	10.1	5.5	16.8
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**	**38.2**
Working capital change	1.7	0.2	(0.4)	(0.3)	(0.6)
Interest & tax paid	(7.3)	(7.8)	(8.4)	(8.8)	(10.0)
Other	2.0	1.1	0	0	0
Operating cash flow	**24.9**	**24.8**	**24.5**	**25.1**	**27.6**
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**	**15.0**	**15.5**	**17.8**
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**	**1.2**	**(1.5)**	**(0.6)**

Balance Sheet (NZ$m)	2018A	2019A	2020E	2021E	2022E
Working capital	5.4	5.2	5.6	5.9	6.5
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)	(10.1)	(8.6)	(8.0)
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	66.9	67.7	69.9
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

Spot valuations (NZ$)	
1.DCF	2.08
2.n/a	n/a
3.n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	573
(Net debt)/cash	9
Less: Capitalised operating leases	(28)
Value of equity	554

Valuation Ratios	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	17.5	16.0	15.0	14.6	13.1
EV/EBIT (x)	23.4	22.1	20.4	19.2	16.6
PE (x)	36.7	34.8	31.7	30.0	25.7
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	3.0	3.2	2.9	3.0	3.5
Net dividend yield (%)	4.1	3.3	3.3	3.3	3.8
Gross dividend yield (%)	5.7	4.6	4.6	4.6	5.3

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	16.8	11.7	12.8	13.6	15.8
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-12.0	-16.1	-17.7	-14.5	-12.9
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	13.8
Return on equity (%)	22.2	22.9	24.3	25.4	28.8
Return on funds employed (%)	27.9	30.7	31.8	32.4	35.6
EBITDA margin (%)	44.3	45.1	44.6	43.4	44.1
EBIT margin (%)	33.1	32.7	32.9	33.0	34.8
Capex to sales (%)	14.6	11.9	12.7	12.2	11.3
Capex to depreciation (%)	583	416	495	509	525
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	152	116	105	99	98

Operating Performance	2018A	2019A	2020E	2021E	2022E
Revenue (NZ$m)					
Core markets	51.9	54.5	58.1	56.8	57.7
Funds services	12.5	14.6	16.4	21.9	28.6
Corporate	-	0.5	0.3	0.3	0.3
Total revenue	**64.5**	**69.5**	**74.8**	**79.0**	**86.5**
Revenue % chg					
Core markets	-0.8%	4.9%	6.7%	-2.3%	1.6%
Funds services	10.7%	16.4%	12.4%	33.7%	30.5%
Total revenue	**1.3%**	**7.9%**	**7.5%**	**5.6%**	**9.6%**
EBITDA (NZ$m)					
Core markets	39.5	41.2	44.4	42.2	42.6
Funds services	4.8	5.2	5.7	9.5	13.3
Corporate	(15.7)	(15.0)	(16.8)	(17.4)	(17.7)
Total EBITDA	**28.6**	**31.4**	**33.3**	**34.3**	**38.2**
EBITDA % chg					
Core markets	-2.6%	4.2%	7.9%	-5.0%	0.9%
Funds services	74.7%	8.6%	10.7%	65.7%	40.4%
Total EBITDA	**-1.5%**	**9.8%**	**6.3%**	**2.8%**	**11.4%**

Changes to forecasts

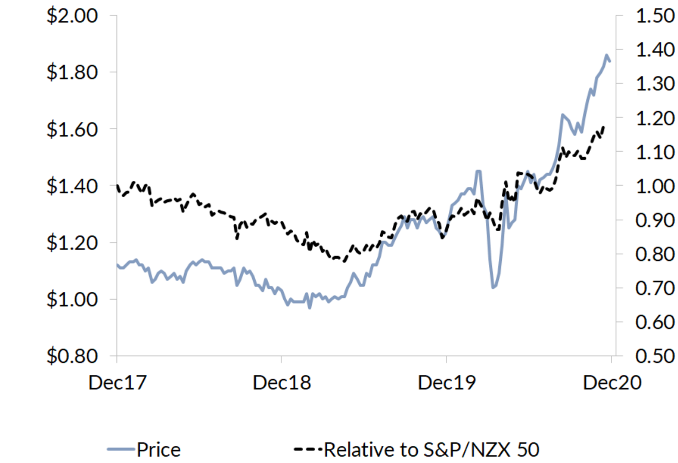
Momentum gained across the business over the last ten months of FY20 places the business in a strong position for FY21 with our EBITDA of NZ$33.3m at the top of management's guidance range of NZ$30m to NZ$33.5m We marginally lift FUM in the Funds Under Management division and FUA in the Wealth Technologies business going forward which is offset by a small increase in costs in FY20 and FY21.

Figure 1. Changes to forecasts

	FY20E			FY21E			FY22E		
(NZ$'000)	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	74,491	74,797	0.4%	78,219	78,983	1.0%	85,997	86,548	0.6%
EBITDA	33,266	33,345	0.2%	34,339	34,274	-0.2%	37,865	38,187	0.8%
EBITDA margin %	44.7%	44.6%	-0.1%	43.9%	43.4%	-0.5%	44.0%	44.1%	0.1%
NPAT	16,176	16,232	0.3%	17,264	17,218	-0.3%	19,885	20,116	1.2%
EPS (cent)	5.8	5.9	0.3%	6.2	6.2	-0.3%	7.1	7.2	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 2. Price performance



Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

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

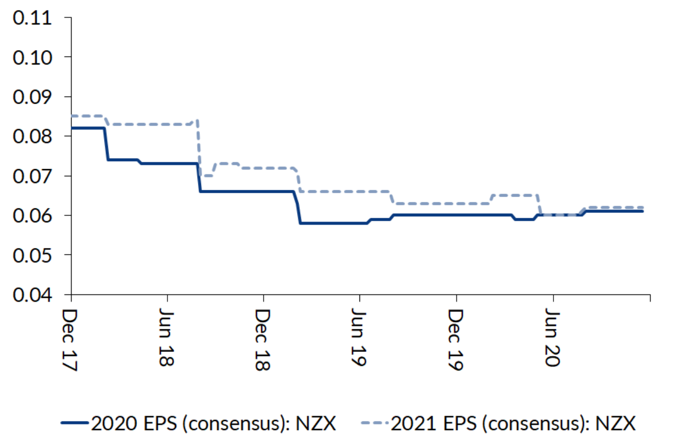
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect NZX's balance date - December)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
NZX	**NZX NZ**	**NZ$1.84**	**NZ$510**	**31.7x**	**30.0x**	**15.0x**	**14.6x**	**20.4x**	**19.2x**	**3.3%**
ASX	ASX AT	A$77.20	A$14,946	30.5x	30.7x	20.2x	20.2x	21.8x	21.8x	2.9%
CME GROUP INC	CME US	US$179.14	US$64,310	26.4x	26.7x	20.4x	20.5x	23.4x	22.3x	3.7%
NASDAQ INC	NDAQ US	US$129.38	US$21,222	21.6x	21.5x	15.7x	15.7x	16.9x	16.9x	1.6%
LONDON STOCK EXCHANGE GROUP	LSE LN	£79.90	£28,090	38.8x	35.0x	21.7x	14.7x	28.1x	20.6x	1.1%
DEUTSCHE BOERSE AG	DB1 GR	€138.25	€26,268	21.8x	21.1x	14.5x	14.1x	17.0x	16.4x	2.3%
INTERCONTINENTAL EXCHANGE IN	ICE US	US$106.97	US$60,052	24.0x	22.5x	20.6x	18.4x	24.8x	23.0x	1.2%
TMX GROUP	X CN	C$127.58	C$7,227	21.8x	20.6x	15.9x	14.9x	19.4x	17.4x	2.3%
HONG KONG EXCHANGES & CLEAR	388 HK	HK$386.20	HK$489,639	43.5x	37.7x	16.2x	14.1x	17.4x	14.7x	2.4%
SINGAPORE EXCHANGE	SGX SP	S$9.04	S$9,684	21.2x	21.8x	14.5x	14.7x	16.8x	17.0x	3.6%
			Compco Average:	**27.7x**	**26.4x**	**17.7x**	**16.4x**	**20.6x**	**18.9x**	**2.3%**
EV = Current Market Cap + Actual Net Debt			**NZX Relative:**	**14%**	**14%**	**-15%**	**-11%**	**-1%**	**2%**	**41%**

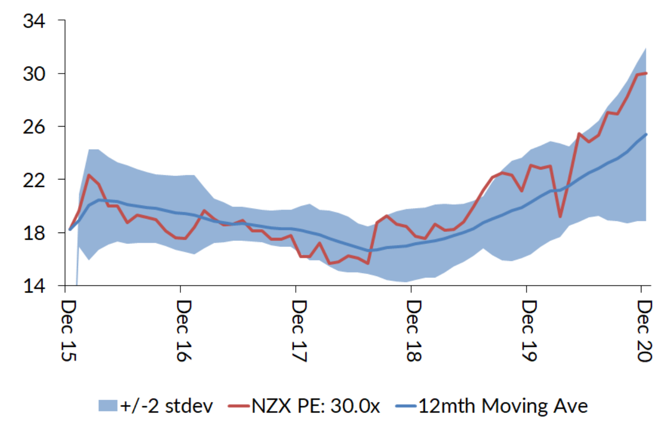
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZX) companies fiscal year end

Figure 5. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 6. One year forward PE (x)



Source: Forsyth Barr analysis

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