

NZX

FY20 Preview — Full Steam Ahead

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OUTPERFORM

Our analysis of NZX's monthly operating metrics suggests the company has performed strongly during 2H20, particularly in the Issuer Relationship and Wealth Technologies divisions. Following an upbeat Capital Markets Day on 2 December 2020, we remain encouraged regarding the future pipelines for both Initial Public Offerings (IPOs) and Wealth Technology contracts, while the Funds Under Management (FUM) division continues to grow steadily driven by strong net cash inflows. The increased expensed infrastructure costs in FY21 at this stage are largely unknown, we make conservative forecasts and expect that increases in revenue will more than offset the increase in costs. We raise our target price to NZ\$2.25 due to 1) improved short term operating metrics across the business, 2) an adjustment to the JBWere FUM contract assumption to NZ\$18bn (previously was NZ\$12bn) in the Wealth Technologies division, and 3) marginally increase our longer term total capital raised assumptions given recent success, renewed focus and promising pipeline of capital raises in the Issuer Relationships division.

NZX Code	NZX	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$2.00	NPAT* (NZ\$m)	14.6	16.4	17.6	21.3	PE	37.9	34.0	31.9	26.3
Target price	NZ\$2.25	EPS* (NZc)	5.3	5.9	6.3	7.6	EV/EBIT	24.3	22.2	20.7	17.3
Risk rating	Medium	EPS growth* (%)	5.4	11.3	6.6	21.2	EV/EBITDA	17.7	16.4	15.8	13.8
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\$554m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.1	3.1	3.1	3.5
Avg daily turnover	319.9k (NZ\$468k)	*Based on normalised profits					Gross div yld (%)	4.2	4.2	4.2	4.9

What's changed?

- **Earnings:** We raise our FY20 EBITDA to NZ\$33.6m from NZ\$33.3m against the company's guidance (top end of the NZ\$33-33.5m range), with the full year result on 17 February.
- **Target price:** We raise our target price from NZ\$2.08 to NZ\$2.25.

Issuer Relationships — promising pipeline

Total capital raised for the year of NZ\$17.6bn within Issuer Relationships exceeded company targets by +86% (target of NZ\$9.5bn). At its recent Capital Markets Day NZX set 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.

Funds Under Management — gaining momentum

Funds Under Management saw FUM growth of +28% for the year vs company target of +14%. With net cash inflows +33% for the ten months to December we expect a strong finish to the year. Given the growing thematic of passive investment in NZ we believe Smartshares is well placed to benefit from increased retail participation, bolstered by additional new funds added at regular intervals.

Wealth Technologies — outstanding 12 months

The Wealth Technologies division saw FUA reach NZ\$7.2bn as of 31 December (vs a target of NZ\$5-6bn for the year), driven by the addition of JBWere, Hobson Wealth and Saturn Advisory to the platform during FY20. NZX is currently in talks with five prospective clients, of which three it is confident on winning.

NZX Ltd (NZX)

Priced as at 11 Jan 2021 (NZ\$)

2.00

12-month target price (NZ\$)*

2.25

Expected share price return

12.5%

Net dividend yield

3.1%

Estimated 12-month return

15.6%

Spot valuations (NZ\$)

1.DCF

2.25

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

617

(Net debt)/cash

9

Less: Capitalised operating leases

(28)

Value of equity

598

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E
Sales revenue	64.5	69.5	76.1	82.1	91.6	EV/EBITDA (x)	19.0	17.4	16.2	15.6	13.7
Normalised EBITDA	28.6	31.4	33.6	34.8	39.9	EV/EBIT (x)	25.5	24.0	22.0	20.5	17.1
Depreciation and amortisation	(7.2)	(8.6)	(8.8)	(8.2)	(8.1)	PE (x)	39.9	37.9	34.0	31.9	26.3
Normalised EBIT	21.3	22.8	24.8	26.6	31.8	Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Net interest	(1.3)	(2.0)	(1.9)	(1.9)	(1.9)	Free cash flow yield (%)	2.8	3.0	2.7	2.8	3.4
Associate income	0	0	0	0	0	Net dividend yield (%)	3.8	3.1	3.1	3.1	3.5
Tax	(6.1)	(5.9)	(6.6)	(7.1)	(8.6)	Gross dividend yield (%)	5.3	4.2	4.2	4.2	4.9
Minority interests	0	0	0	0	0						
Normalised NPAT	13.7	14.6	16.4	17.6	21.3	Capital Structure	2018A	2019A	2020E	2021E	2022E
Abnormals/other	(2.0)	0	0	0	0	Interest cover EBIT (x)	16.8	11.7	12.9	13.9	16.8
Reported NPAT	11.6	14.6	16.4	17.6	21.3	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (cps)	5.0	5.3	5.9	6.3	7.6	Net debt/ND+E (%)	-12.0	-16.1	-17.9	-15.0	-15.1
DPS (cps)	7.6	6.1	6.1	6.1	7.0	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Growth Rates	2018A	2019A	2020E	2021E	2022E	Key Ratios	2018A	2019A	2020E	2021E	2022E
Revenue (%)	-14.4	7.9	9.4	7.9	11.6	Return on assets (%)	11.4	10.7	11.5	12.3	14.4
EBITDA (%)	-1.5	9.8	7.1	3.6	14.6	Return on equity (%)	22.2	22.9	24.5	25.8	29.8
EBIT (%)	-2.8	6.7	9.0	7.1	19.6	Return on funds employed (%)	27.9	30.7	32.0	32.9	37.3
Normalised NPAT (%)	-7.8	7.1	12.1	7.2	21.2	EBITDA margin (%)	44.3	45.1	44.2	42.4	43.5
Normalised EPS (%)	-8.5	5.4	11.3	6.6	21.2	EBIT margin (%)	33.1	32.7	32.6	32.4	34.7
Ordinary DPS (%)	0.0	0.0	0.0	0.0	14.8	Capex to sales (%)	14.6	11.9	12.5	11.7	10.7
						Capex to depreciation (%)	583	416	495	509	525
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Imputation (%)	100	100	100	100	100
EBITDA	28.6	31.4	33.6	34.8	39.9	Pay-out ratio (%)	152	116	104	97	92
Working capital change	1.7	0.2	(0.5)	(0.5)	(0.7)						
Interest & tax paid	(7.3)	(7.8)	(8.5)	(9.0)	(10.5)	Operating Performance	2018A	2019A	2020E	2021E	2022E
Other	2.0	1.1	0	0	0	Revenue (NZ\$m)					
Operating cash flow	24.9	24.8	24.6	25.4	28.7	Core markets	51.9	54.5	59.5	58.6	60.4
Capital expenditure	(9.4)	(8.3)	(9.5)	(9.6)	(9.8)	Funds services	12.5	14.6	16.3	23.2	30.9
(Acquisitions)/divestments	(5.4)	(0.0)	0	0	0	Corporate	-	0.5	0.3	0.3	0.3
Other	(2.1)	(1.3)	0	0	0	Total revenue	64.5	69.5	76.1	82.1	91.6
Funding available/(required)	8.0	15.2	15.1	15.7	18.9						
Dividends paid	(17.5)	(12.8)	(13.8)	(17.0)	(18.4)	Revenue % chg					
Equity raised/(returned)	0	0	0	0	0	Core markets	-0.8%	4.9%	9.1%	-1.5%	3.2%
(Increase)/decrease in net debt	(9.5)	2.4	1.3	(1.3)	0.5	Funds services	10.7%	16.4%	12.1%	42.2%	33.0%
						Total revenue	1.3%	7.9%	9.4%	7.9%	11.6%
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E						
Working capital	5.4	5.2	5.7	6.2	6.9	EBITDA (NZ\$m)					
Fixed assets	2.8	2.6	2.7	2.7	2.8	Core markets	39.5	41.2	45.7	43.3	44.6
Intangibles	66.7	67.7	68.9	70.7	72.7	Funds services	4.8	5.2	5.9	10.7	15.6
Right of use asset	6.3	5.8	5.6	5.3	5.1	Corporate	(15.7)	(15.0)	(18.0)	(19.2)	(20.3)
Other assets	56.7	79.7	79.7	79.7	79.7	Total EBITDA	28.6	31.4	33.6	34.8	39.9
Total funds employed	137.9	161.0	162.5	164.6	167.1						
Net debt/(cash)	(6.6)	(8.9)	(10.2)	(8.9)	(9.4)	EBITDA % chg					
Lease liability	8.1	7.2	6.6	6.3	6.0	Core markets	-2.6%	4.2%	11.0%	-5.2%	3.0%
Other liabilities	75.0	98.8	99.0	99.0	98.9	Funds services	74.7%	8.6%	14.7%	80.4%	45.5%
Shareholder's funds	61.4	63.9	67.1	68.2	71.6	Total EBITDA	-1.5%	9.8%	7.1%	3.6%	14.6%
Minority interests	0	0	0	0	0						
Total funding sources	137.9	161.0	162.5	164.6	167.1						

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

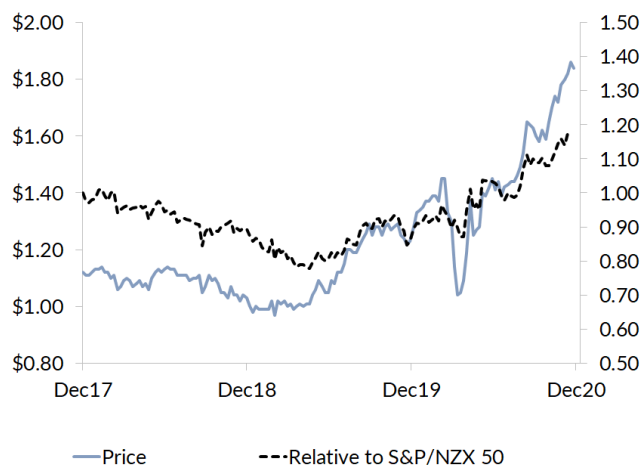
Changes to forecasts

We update our FY20 forecast numbers ahead of NZX's full year results on 17 February. The predominant driver to raised forecasts is the monthly operating statistics which show an outperformance across the business against NZX targets set at the beginning of the year for Capital Raised, Value Traded, FUM growth and total FUA in the Wealth Technologies business. We continue to expect strong revenue growth momentum to more than offset the likely increase in IT and infrastructure costs through FY21.

Figure 1. Changes to forecasts FY20E–FY22E

(NZ\$'000)	FY20E			FY21E			FY22E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Revenue	74,797	76,093	1.7%	78,983	82,096	3.9%	86,548	91,644	5.9%
EBITDA	33,345	33,596	0.8%	34,274	34,795	1.5%	38,187	39,863	4.4%
EBITDA margin %	44.6%	44.2%	-0.4%	43.4%	42.4%	-1.0%	44.1%	43.5%	-0.6%
NPAT	16,232	16,411	1.1%	17,218	17,591	2.2%	20,116	21,319	6.0%
EPS (cent)	5.9	5.9	1.1%	6.2	6.3	2.2%	7.2	7.6	6.0%
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

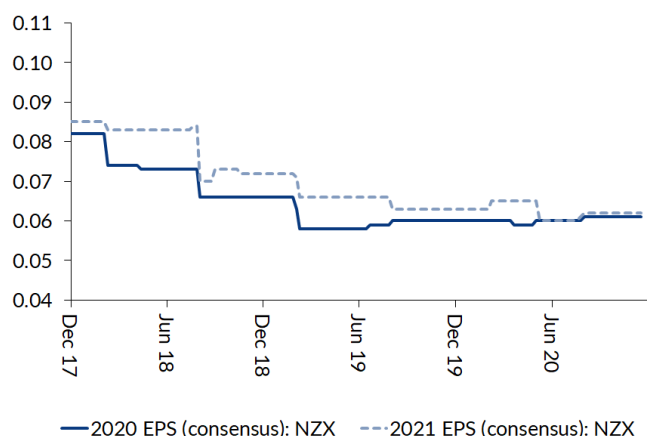
Shareholder	Latest Holding
No current substantial shareholders	

Figure 4. International valuation comparisons

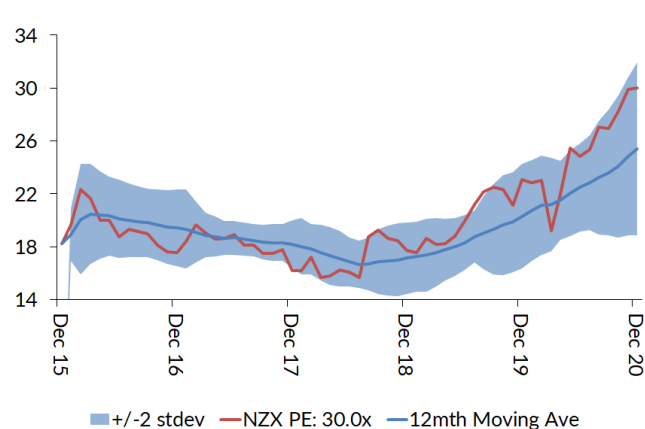
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect NZX's balance date - December)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
NZX	NZX NZ	NZ\$2.00	NZ\$554	34.0x	31.9x	16.2x	15.7x	22.0x	20.5x	3.0%
ASX	ASX AT	A\$72.75	A\$14,084	28.8x	29.0x	19.0x	18.9x	20.5x	20.5x	3.1%
CME GROUP INC	CME US	US\$199.68	US\$17,683	29.6x	30.0x	23.0x	23.2x	26.0x	24.7x	3.3%
NASDAQ INC	NDAQ US	US\$138.81	US\$22,770	22.8x	22.9x	16.6x	16.5x	17.9x	18.0x	1.5%
LONDON STOCK EXCHANGE GROUP	LSE LN	£92.06	£32,367	45.4x	38.9x	24.6x	16.9x	32.3x	23.7x	0.9%
DEUTSCHE BOERSE AG	DB1 GR	€138.45	€26,306	21.8x	21.1x	14.5x	14.0x	17.0x	16.3x	2.3%
INTERCONTINENTAL EXCHANGE IN	ICE US	US\$117.63	US\$66,024	26.3x	24.7x	22.0x	19.7x	26.4x	24.4x	1.1%
TMX GROUP	X CN	C\$126.91	C\$7,190	21.6x	20.4x	15.7x	14.7x	19.2x	17.1x	2.3%
HONG KONG EXCHANGES & CLEAR	388 HK	HK\$452.00	HK\$573,062	>50x	44.0x	22.0x	18.9x	23.7x	19.7x	2.0%
SINGAPORE EXCHANGE	SGX SP	S\$10.00	S\$10,712	23.4x	23.9x	16.0x	16.2x	18.6x	18.5x	3.3%
Compco Average:				27.4x	28.3x	19.3x	17.7x	22.4x	20.3x	2.2%
NZX Relative:				24%	13%	-16%	-11%	-2%	1%	39%

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 5. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 6. One year forward PE (x)


Source: Forsyth Barr analysis

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