FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | FINANCIALS | EXCHANGE & MARKETS OPERATOR
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NZX
Ransomed, Healed, Restored, Forgiven?

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OUTPERFORM

NZX reported a stronger than expected FY20 result with a good performance from every division. This was driven by impressive organic revenue growth offsetting higher than anticipated costs. The company has invested heavily in additional headcount and IT infrastructure during FY20, in light of outages occurring during the year and we expect to see continued investment into FY21. We recognise the largely unknown nature of these infrastructure investments during the year ahead, however, first time FY21 EBITDA guidance appears conservative at this stage. We remain attracted to NZX's diversified revenue streams, stable balance sheet, organic growth in the Smartshares business and momentum building in both the Issuer Relationships and Wealth Technologies divisions, while the business continues to screen well from an ESG context.

NZX Code	NZX
Share price	NZ$2.00
Target price	NZ$2.16
Risk rating	Medium
Issued shares	277.2m
Market cap	NZ$554m
Avg daily turnover	334.9k (NZ$506k)

Financials: Dec/	20A	21E	22E	23E
NPAT* (NZ$m)	17.6	17.6	20.4	24.8
EPS* (NZc)	6.3	6.3	7.3	8.8
EPS growth* (%)	18.8	-0.4	16.4	21.5
DPS (NZc)	6.1	6.1	7.0	8.5
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	31.9	32.0	27.5	22.6
EV/EBIT	21.1	21.0	18.3	15.2
EV/EBITDA	16.0	15.6	14.2	12.2
Price / NTA	n/a	n/a	n/a	n/a
Cash div yld (%)	3.1	3.1	3.5	4.3
Gross div yld (%)	4.2	4.2	4.9	5.9

What's changed?

- **Earnings:** FY21 EBITDA increased from NZ$34.8m to NZ$35.0m (+0.6%), FY21 CAPEX increased from NZ$10m to NZ$13m.
- **Target price:** Decreased from NZ$2.25 to NZ$2.16 (-4%) driven by changes to our cost of capital assumptions.

FY21 guidance appears conservative despite largely unknown operational expenditure

NZX has guided FY21 EBITDA of between NZ$31.5m and NZ$35.5m (mid-point NZ$33.5m) which in our view appears conservative. We raise our FY21 EBITDA forecasts marginally to NZ$35m and see upside risk given 1) momentum building in capital raised in the Issuer Relationships division and 2) a pipeline of potential contract wins in the Wealth Technologies business.

2021 deliverable targets broadly in line with expectations

NZX's 2021 deliverable targets delivered few surprises with the FY23 EBITDA target of NZ$42–NZ$54m remaining unchanged.

- Issuer Relationships capital raised target was set to NZ$10.0bn against our forecasts of NZ$10.8bn
- Secondary Markets value traded expected is to be NZ$45bn vs our forecast of NZ$46.2bn
- Funds Under Management growth target of +14.0% vs our expectations of 14.8%
- Wealth Technologies FUA is anticipated to reach NZ$10bn for FY21 vs our assumption of NZ$10.2bn

Short term cost elevation provides little impact to valuation

We make changes to our risk free rate (from 1.3% to 2.3%) and market risk premium (from 6.0% to 5.5%), consistent with our strategy report, *Still a One Way Bet? — Updated WACC Assumptions*, published 12 February 2021. Our WACC moves from 6.9% to 7.1%, decreasing our valuation from NZ$2.25 to NZ$2.16. The increase in IT and infrastructure costs seen across FY20 and FY21 create little impact to our valuation due to its one-off nature.

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NZX Ltd (NZX)

Priced as at 17 Feb 2021 (NZ$)	**2.00**

12-month target price (NZ$)*	**2.16**
Expected share price return	8.0%
Net dividend yield	3.1%
Estimated 12-month return	11.1%

Spot valuations (NZ$)	
1.DCF	2.16
2.n/a	n/a
3.n/a	n/a

Key WACC assumptions	
Risk free rate	2.30%
Equity beta	0.95
WACC	7.1%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	588
(Net debt)/cash	14
Less: Capitalised operating leases	(28)
Value of equity	574

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	69.5	78.4	80.3	88.5	97.7
Normalised EBITDA	**31.4**	**34.4**	**35.0**	**38.8**	**45.1**
Depreciation and amortisation	(8.6)	(8.3)	(8.9)	(8.7)	(8.8)
Normalised EBIT	**22.8**	**26.1**	**26.1**	**30.1**	**36.2**
Net interest	(2.0)	(1.9)	(1.5)	(1.5)	(1.5)
Associate income	0	0	0	0	0
Tax	(5.9)	(7.0)	(7.0)	(8.2)	(9.9)
Minority interests	0	0	0	0	0
Normalised NPAT	**14.6**	**17.6**	**17.6**	**20.4**	**24.8**
Abnormals/other	0	0	0	0	0
Reported NPAT	**14.6**	**17.6**	**17.6**	**20.4**	**24.8**
Normalised EPS (cps)	5.3	6.3	6.3	7.3	8.8
DPS (cps)	6.1	6.1	6.1	7.0	8.5

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	17.4	15.8	15.5	14.0	12.1
EV/EBIT (x)	24.0	20.8	20.8	18.1	15.0
PE (x)	37.9	31.9	32.0	27.5	22.6
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	3.0	3.8	2.4	3.4	4.2
Net dividend yield (%)	3.1	3.1	3.1	3.5	4.3
Gross dividend yield (%)	4.2	4.2	4.2	4.9	5.9

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	11.7	13.5	17.1	20.1	24.5
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-16.1	-25.8	-17.5	-17.6	-18.3
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	13.7	12.8	2.3	10.3	10.4
EBITDA (%)	17.4	9.7	1.8	10.9	16.1
EBIT (%)	16.8	14.6	0.0	15.3	20.3
Normalised NPAT (%)	23.8	20.1	-0.2	16.4	21.5
Normalised EPS (%)	21.8	18.8	-0.4	16.4	21.5
Ordinary DPS (%)	0.0	0.0	0.0	14.8	21.4

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	10.7	10.6	10.5	12.0	14.2
Return on equity (%)	22.9	26.0	25.5	28.6	33.2
Return on funds employed (%)	30.7	35.4	32.6	36.0	41.6
EBITDA margin (%)	45.1	43.9	43.6	43.9	46.1
EBIT margin (%)	32.7	33.3	32.5	34.0	37.1
Capex to sales (%)	11.9	12.7	16.2	11.3	10.4
Capex to depreciation (%)	416	456	671	629	738
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	115	97	98	96	96

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**31.4**	**34.4**	**35.0**	**38.8**	**45.1**
Working capital change	0.2	2.1	(0.1)	(0.3)	(0.4)
Interest & tax paid	(7.8)	(9.0)	(8.5)	(9.7)	(11.4)
Other	1.1	3.7	0	0	0
Operating cash flow	**24.8**	**31.2**	**26.4**	**28.8**	**33.3**
Capital expenditure	(8.3)	(10.0)	(13.0)	(10.0)	(10.1)
(Acquisitions)/divestments	(0.0)	0	0	0	0
Other	(1.3)	(1.5)	0	0	0
Funding available/(required)	**15.2**	**19.8**	**13.4**	**18.8**	**23.2**
Dividends paid	(12.8)	(14.8)	(17.0)	(18.4)	(22.3)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**2.4**	**5.0**	**(3.6)**	**0.4**	**0.8**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (NZ$m)					
Core markets	54.5	58.7	56.9	59.7	60.8
Funds services	14.6	16.1	20.1	25.5	33.5
Corporate	0.5	0.2	0.1	0.1	0.1
Total revenue	**69.5**	**75.0**	**77.1**	**85.3**	**94.4**
Revenue % chg					
Core markets	4.9%	7.7%	-3.0%	4.8%	1.9%
Funds services	16.4%	10.4%	24.7%	26.8%	31.6%
Total revenue	**7.9%**	**7.8%**	**2.8%**	**10.6%**	**10.7%**
EBITDA (NZ$m)					
Core markets	41.2	0.0	0.0	0.0	0.0
Funds services	5.2	5.3	8.0	11.2	17.8
Corporate	(15.0)	(14.9)	(14.0)	(15.3)	(16.0)
Total EBITDA	**31.4**	**-9.5**	**-6.0**	**-4.1**	**1.8**
EBITDA % chg					
Core markets	4.2%	-100.0%	#DIV/0!	#DIV/0!	#DIV/0!
Funds services	8.6%	3.2%	50.3%	40.2%	58.3%
Total EBITDA	**9.8%**	**-130.4%**	**-36.7%**	**-32.0%**	**-143.6%**

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	5.2	3.2	3.2	3.6	3.9
Fixed assets	2.6	2.1	1.6	1.3	1.1
Intangibles	67.7	71.1	76.6	79.0	81.1
Right of use asset	5.8	5.1	4.4	4.0	3.7
Other assets	79.7	104.7	104.7	104.7	104.7
Total funds employed	**161.0**	**186.2**	**190.6**	**192.5**	**194.5**
Net debt/(cash)	(8.9)	(13.9)	(10.3)	(10.7)	(11.5)
Lease liability	7.2	5.7	5.4	5.1	4.8
Other liabilities	98.8	126.7	126.7	126.6	126.5
Shareholder's funds	63.9	67.7	68.8	71.5	74.8
Minority interests	0	0	0	0	0
Total funding sources	**161.0**	**186.2**	**190.6**	**192.5**	**194.5**

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

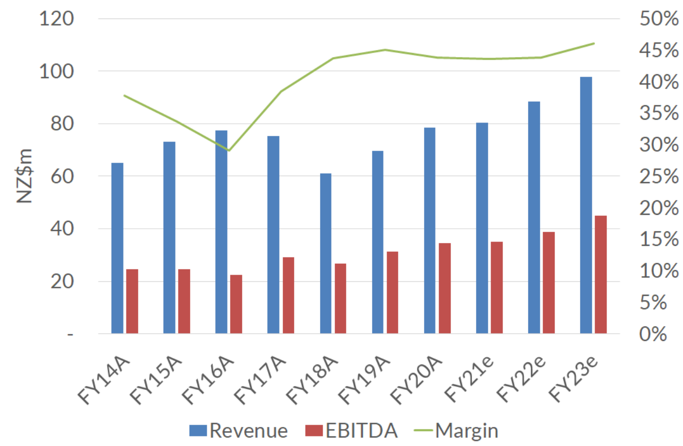
FY20 Result summary

NZX's impressive FY20 result demonstrated clear progress made under the current management team, with the business gathering momentum across all divisions. This was evident given the reported FY20 EBITDA of NZ$34.4m, ahead of our forecast NZ$33.6m.

Within the market divisions, the Issuer Relationships division's target for capital raises during the year exceeded expectations (NZ$17.63bn vs NZ$9.5bn), predominantly driven by increased secondary capital raises in light of COVID-19 restructuring. The Secondary Markets division reported total value traded to be NZ$53.7bn against a target set of NZ$38.6bn, with value traded remaining elevated during the second half of the year. The data division was bolstered by total terminal and licence usage increasing by a monthly average of +14% during FY20 against the prior year. Funds Under Management saw an increase of +28% for the year against a target of +14% while the Wealth Technologies division saw FUA reach NZ$7.2bn against prior company expectations of NZ$5–6bn.

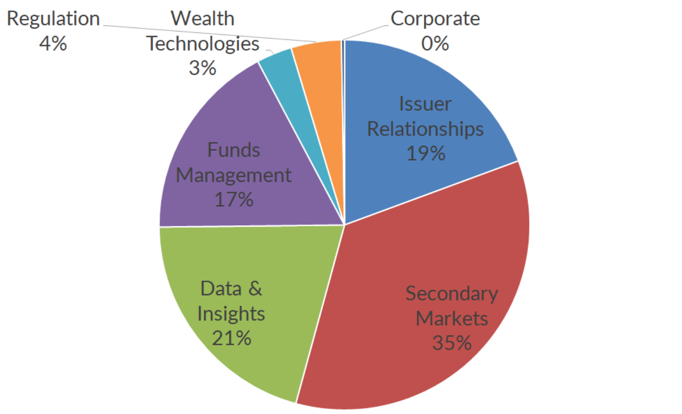
Operating costs during FY20 were higher than anticipated (NZ$44.0m vs our forecast NZ$42.5m) with a higher degree of infrastructure and IT costs falling into FY20 (over FY21) than we previously expected. Depreciation and amortisation were marginally lower than expectations (NZ$8.2m vs NZ$8.8m), driving a reported FY20 NPAT of NZ$17.6m against our forecast of NZ$16.4m.

Figure 1. Revenue, EBITDA, margin FY14A to FY23E



Source: Forsyth Barr analysis

Figure 2. FY20 Revenue split by division



Source: Forsyth Barr analysis

Changes to forecasts

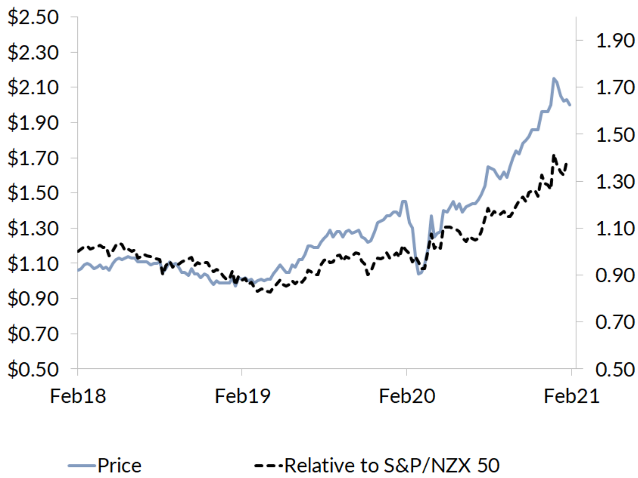
Decreased revenue reflects lower forecast audit revenue in the Data division, a slight increase in fee compression in the Smartshares business and lower average bps generated from FUA in the Wealth Technologies division (6.2bps decreased to 4.9bps). We adjust our earnings forecasts to include slightly lower costs in FY21 (higher than expected in FY20) but increase our FY21 CAPEX from NZ$10m to NZ$13m.

Figure 3. Changes to forecasts FY21E–FY23E

		FY21E			FY22E		FY23E
(NZ$'000)	Old	New	Chg	Old	New	Chg	New
Revenue	82,096	80,259	-2.2%	91,805	88,504	-3.6%	97,743
EBITDA	34,795	35,015	0.6%	39,992	38,825	-2.9%	45,067
EBITDA margin %	42.4%	43.6%	1.2%	43.6%	43.9%	0.3%	46.1%
NPAT	17,591	17,550	-0.2%	21,411	20,425	-4.6%	24,813
EPS (cent)	6.3	6.3	-0.2%	7.7	7.3	-4.6%	8.9
DPS (cent)	6.1	6.1	0.0%	7.0	7.0	0.0%	8.5

Source: Forsyth Barr analysis

Figure 4. Price performance



Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

Shareholder	Latest Holding
Aberdeen Asset Management Limited	9.1%

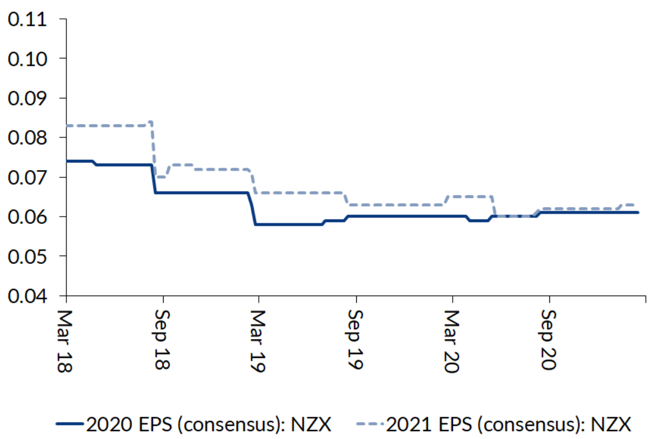
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. 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)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
NZX	**NZX NZ**	**NZ$2.00**	**NZ$554**	**32.0x**	**27.5x**	**15.4x**	**13.9x**	**20.7x**	**18.0x**	**3.5%**
ASX	ASX AT	A$70.89	A$13,724	28.5x	27.8x	18.9x	18.1x	20.5x	20.0x	3.2%
CME GROUP INC	CME US	US$187.21	US$67,207	28.4x	26.3x	21.8x	20.1x	22.0x	20.4x	3.6%
NASDAQ INC	NDAQ US	US$143.12	US$23,476	22.8x	21.1x	15.9x	15.1x	18.3x	n/a	1.5%
LONDON STOCK EXCHANGE GROUP	LSE LN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
DEUTSCHE BOERSE AG	DB1 GR	€138.90	€26,306	21.1x	19.2x	13.9x	12.6x	16.2x	14.5x	2.5%
INTERCONTINENTAL EXCHANGE IN	ICE US	US$111.86	US$62,827	22.9x	21.3x	18.3x	17.4x	23.7x	20.7x	1.3%
TMX GROUP	X CN	C$126.27	C$7,156	19.7x	18.2x	14.1x	13.2x	16.8x	15.3x	2.4%
HONG KONG EXCHANGES & CLEAR	388 HK	HK$548.00	HK$694,775	>50x	48.7x	30.2x	24.0x	32.9x	25.6x	1.8%
SINGAPORE EXCHANGE	SGX SP	S$10.02	S$10,734	23.2x	22.5x	15.9x	15.4x	18.3x	17.6x	3.4%
			Compco Average:	**23.8x**	**25.6x**	**18.6x**	**17.0x**	**21.1x**	**19.2x**	**2.5%**
EV = Current Market Cap + Actual Net Debt			**NZX Relative:**	**35%**	**7%**	**-17%**	**-18%**	**-2%**	**-6%**	**42%**

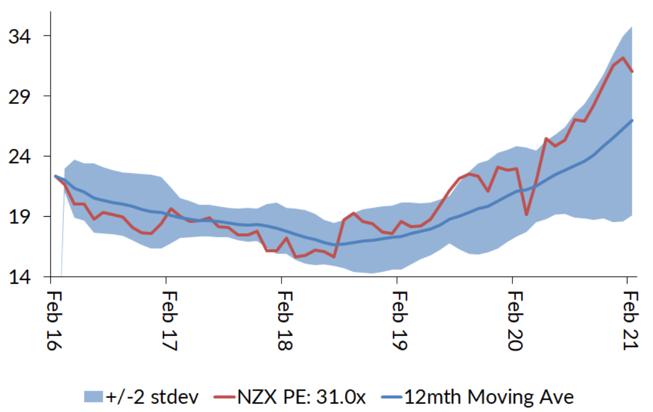
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZX) companies fiscal year end

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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