FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | FINANCIALS | EXCHANGE & MARKETS OPERATOR

1 MAY 2020

NZX
Ship Steady for Q1 and Beyond

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

RESEARCH INSIGHTS

NZX's 1Q20 result was positive with a strong performance in January and February, slightly dampened by the impacts of COVID-19 during March. Following previously disclosed operating metrics, revenues were marginally ahead of expectations steered by a standout performance in Secondary Markets. The Data and Insights division generated a sizeable increase in revenues, underpinned by increased audit fees, while Funds Under Management revenues held up better than anticipated. Given the modest FY19 tailwind and improving market conditions, we would expect to see a similarly strong performance in 1H20. Second half performance hinges on a number of factors: market movements, number of secondary equity capital raises, and progression of client on-boarding in the Wealth Technologies business. Despite the unpredictable macroeconomic environment, the group remains resilient and in a strong position to ride out market buoyancy. We see no lasting impact to long term targets.

NZX Code	NZX
Share price	NZ$1.29
Issued shares	270.9m
Market cap	NZ$349m
Avg daily turnover	256.1k (NZ$302k)

Financials: Dec/	19A	20E	21E	22E
NPAT* (NZ$m)	14.6	14.9	16.4	18.0
EPS* (NZc)	5.3	5.3	5.8	6.4
EPS growth* (%)	5.4	1.2	9.2	9.7
DPS (NZc)	6.1	6.1	6.1	6.1
Imputation (%)	100	100	100	100

*Based on normalised profits

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	10.9	10.5	9.6	8.8
EV/EBIT	15.0	15.0	13.7	12.6
PE	24.4	24.1	22.1	20.1
Price / NTA	n/a	n/a	n/a	n/a
Cash div yld (%)	4.7	4.7	4.7	4.7
Gross div yld (%)	6.6	6.6	6.6	6.6

Key changes

- Earnings: We lower our FY20E EBITDA forecast to NZ$32.4m reflecting market movements.

Core divisions

Secondary Markets produced a standout 1Q20 performance driven predominantly by the unusually high level of market volatility resulting from COVID-19. This was combined with increased average trading and clearing fees generated by the July 2019 fee structure change. Data and Insights also reported a bright start to the year with audit revenues exceeding prior expectations. Aggregate Issuer Relationship revenue was unsurprisingly flat for the period with a decreased level of capital issuance offset by inflationary contractual revenues plus a slight increase to the annual listing fee over the prior year.

Funds businesses

Funds Under Management reported robust revenue growth, with a weaker March period partially negating strong growth levels generated in January and February. Net cash inflows remained solid for the quarter at around NZ$80m. The Wealth Technologies business saw little revenue variance against the previous year while the FY20E Funds Under Administration target of NZ$5–6bn remains unchanged.

Outlook

We see some short term earnings impact as a result of market volatility and adjust our FY20E EBITDA downwards to NZ$32.4m, within the upper end of the guided NZ$30–33.5m.

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NZX Ltd (NZX)

Priced as at 30 Apr 2020 (NZ$) **1.29**

Research Insights

Forsyth Barr Research Insights focuses on qualitative rather than quantitative assessments of an equity investment.
We do not provide valuation, target prices or investment ratings for companies in the Research Insights series. It is targeted at selected smaller cap stocks with typically higher risk attributes, or those under transitional coverage.
Our earnings and cashflow forecasts, together with key valuation and ratios provided on this page should assist investors in determining the relative valuation merits of the company.

Profit and Loss Account (NZ$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	64.5	69.5	70.5	76.6	85.5
Normalised EBITDA	**28.6**	**31.4**	**32.4**	**35.5**	**38.5**
Depreciation and amortisation	(7.2)	(8.6)	(9.8)	(10.8)	(11.6)
Normalised EBIT	**21.3**	**22.8**	**22.6**	**24.7**	**26.9**
Net interest	(1.3)	(2.0)	(1.9)	(1.9)	(1.9)
Associate income	0	0	0	0	0
Tax	(6.1)	(5.9)	(5.8)	(6.4)	(7.0)
Minority interests	0	0	0	0	0
Normalised NPAT	**13.7**	**14.6**	**14.9**	**16.4**	**18.0**
Abnormals/other	(2)	0	0	0	0
Reported NPAT	**12**	**14.6**	**14.9**	**16.4**	**18.0**
Normalised EPS (cps)	5.0	5.3	5.3	5.8	6.4
DPS (cps)	7.6	6.1	6.1	6.1	6.1

Growth Rates	2018A	2019A	2020A	2021A	2022A
Revenue (%)	-14.4	7.9	1.3	8.7	11.6
EBITDA (%)	-1.5	9.8	3.3	9.5	8.4
EBIT (%)	-2.8	6.7	-0.5	9.0	8.9
Normalised NPAT (%)	-7.8	7.1	1.9	9.9	9.7
Normalised EPS (%)	-8.5	5.4	1.2	9.2	9.7
Ordinary DPS (%)	0.0	0.0	0.0	0.0	0.0

Cash Flow (NZ$m)	2018A	2019A	2020E	2021E	2022E
EBITDA	**28.6**	**31.4**	**32.4**	**35.5**	**38.5**
Working capital change	1.7	0.2	(0.1)	(0.5)	(0.7)
Interest & tax paid	(7.3)	(7.8)	(7.7)	(8.3)	(8.9)
Other	2.0	1.1	0	0	0
Operating cash flow	**24.9**	**24.8**	**24.6**	**26.7**	**28.9**
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**	**15.1**	**17.1**	**19.1**
Dividends paid	(17.5)	(12.8)	(13.8)	(17.0)	(17.0)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**(9.5)**	**2.4**	**1.3**	**0.1**	**2.1**

Balance Sheet (NZ$m)	2018A	2019A	2020E	2021E	2022E
Working capital	5.4	5.2	5.3	5.7	6.4
Fixed assets	2.8	2.6	3.3	3.8	4.1
Intangibles	66.7	67.7	68.5	68.3	67.2
Right of use asset	6.3	5.8	5.0	3.9	2.7
Other assets	56.7	79.7	79.7	79.7	79.7
Total funds employed	**137.9**	**161.0**	**161.7**	**161.4**	**160.2**
Net debt/(cash)	(6.6)	(8.9)	(10.2)	(10.3)	(12.4)
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	66.3	66.5	67.7
Minority interests	0	0	0	0	0
Total funding sources	**137.9**	**161.0**	**161.7**	**161.4**	**160.2**

* 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)	11.9	10.9	10.5	9.6	8.8
EV/EBIT (x)	15.9	15.0	15.0	13.7	12.6
PE (x)	25.7	24.4	24.1	22.1	20.1
Price/NTA (x)	n/a	n/a	n/a	n/a	>100x
Free cash flow yield (%)	4.4	4.7	4.3	4.9	5.5
Net dividend yield (%)	5.9	4.7	4.7	4.7	4.7
Gross dividend yield (%)	8.2	6.6	6.6	6.6	6.6

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	16.8	11.7	11.7	12.9	14.2
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-12.0	-16.1	-18.1	-18.3	-22.4
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	10.6	11.5	12.4
Return on equity (%)	22.2	22.9	22.5	24.7	26.6
Return on funds employed (%)	27.9	30.7	30.0	32.6	35.9
EBITDA margin (%)	44.3	45.1	46.0	46.3	45.0
EBIT margin (%)	33.1	32.7	32.1	32.2	31.4
Capex to sales (%)	14.6	11.9	13.5	12.6	11.4
Capex to depreciation (%)	583	416	370	389	431
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	152	116	114	105	95

Operating Performance	2018A	2019A	2020E	2021E	2022E
Revenue (NZ$m)					
Core markets	51.9	54.5	54.1	55.3	56.5
Funds services	12.5	14.6	16.1	21.1	28.7
Corporate	-	0.5	0.3	0.3	0.3
Total revenue	**64.5**	**69.5**	**70.5**	**76.6**	**85.5**
Revenue % chg					
Core markets	-0.8%	4.9%	-0.7%	2.1%	2.3%
Funds services	10.7%	16.4%	10.5%	30.7%	36.2%
Total revenue	**1.3%**	**7.9%**	**1.3%**	**8.7%**	**11.6%**

1Q20 results

Revenue figures for NZX's 1Q20 trading update were positive and broadly as expected with a strong performance in January and February. COVID-19 dampened March data. The group remains in a stable position to navigate the months ahead and we anticipate an equally robust 1H20, with the second half of the year somewhat dependent on market conditions.

Earnings revisions

We revise our FY20E EBITDA forecasts downwards 2% to NZ$32.4m within the upper end of the guided range of NZ$30–33.5m. We see modest short term earnings impact as a result of market volatility; dampening growth in the annual listing fee and Funds Management Businesses. However, we see little impact to longer term performance and remain confident that the company is broadly on track to meet long term targets set out for FY23E.

Figure 1. Changes to forecasts

	FY20E			FY21E			FY22E		
(NZ$'000)	**Old**	**New**	**% change**	**Old**	**New**	**% change**	**Old**	**New**	**% change**
Revenue	70,984	70,486	-0.7%	78,248	76,587	-2.1%	85,216	85,479	0.3%
EBITDA	33,103	32,414	-2.1%	35,876	35,483	-1.1%	38,349	38,453	0.3%
EBITDA margin %	46.6%	46.0%	-0.6%	45.8%	46.3%	0.5%	45.0%	45.0%	0.0%
NPAT	15,467	14,918	-3.6%	16,750	16,388	-2.2%	17,803	17,980	1.0%
EPS (cent)	5.6	5.4	-3.6%	6.0	5.9	-2.2%	6.4	6.4	1.0%
DPS (cent)	6.1	6.1	0.0%	6.1	6.1	0.0%	6.1	6.1	0.0%

Source: Forsyth Barr analysis

Divisional

On the back of positive quarterly operating metrics previously disclosed, revenues were marginally ahead of expectations with the standout performance in Secondary Markets while Data and Insights revenues were bolstered by additional audit fees.

Issuer Relationships

1Q20 annual listing fees reflect total market capitalisation as of 31 May 2019. Fees for the second half of the year are contingent on the level of market capitalisation at 31 May 2020.

Primary capital listings are likely deferred for the short term given the current market volatility, although we expect some partial offset in revenue decline, driven by secondary equity capital raises: as listed companies look to recapitalise balance sheets.

Contract revenues were broadly unchanged for the quarter with Fonterra and the Electricity Authority long term contracts unaffected by COVID-19.

Figure 2. Issuer Relationship revenue streams quarterly performance and outlook

Revenue stream (NZ$)	1Q20	1Q19	Change	Outlook
Annual listing fees	2,731	2,576	6%	Current levels of capitalisation would see a similar FY20E fee to FY19
Primary listing fees	71	256	-72%	We expect primary capital raises to be deferred until FY21E
Secondary issuance fees	348	449	-22%	Some benefit expected from COVID-19 recapitalisations
Other issuer services	152	86	77%	Regulation work largely unchanged
Consulting & development	160	163	-2%	Contract work largely unchanged
Contractual revenue	2,251	2,171	4%	Fonterra and EA contracts stable, CPI inflation
Total	**5,713**	**5,701**	**0%**	

Source:NZX, Forsyth Barr analysis

Secondary Markets

Daily average value traded for the quarter was up +40% on 1Q19 while daily average volume traded was up 187%. Increases for both metrics were driven by a change in the fee structure as of 1 July 2019, with average trading and clearing fees for the quarter up 11% and 10% respectively, in addition to unusually high levels of market volatility.

Figure 3. Secondary Market revenue streams quarterly performance and outlook

Revenue stream (NZ$)	1Q20	1Q19	Change	Outlook
Participant services	1,134	905	25%	Annual participation fee lifted 17% July 19, CPI% increase FY20
Securities trading	1,425	879	62%	Tailwind from fee change 1 July 19, additional COVID-19 impact
Securities clearing	2,091	1,307	60%	Tailwind from fee change 1 July 19, additional COVID-19 impact
Dairy derivatives	434	394	10%	Long-term growth driver, incremental growth going forward
Total	**5,084**	**3,485**	**46%**	

Source: NZX, Forsyth Barr analysis

Data & Insights

With an increase in reported terminal revenues of 12% and licence revenues of 27%, underlying numbers were mostly flat for the quarter with increases driven by audit and back dated fees. We expect modest underlying growth across the division for the full year.

Figure 4. Data and Insight revenue streams quarterly performance and outlook

Revenue stream (NZ$)	1Q20	1Q19	Change	Outlook
Royalties from terminals	1,813	1,613	12%	Underlying trend flat volume and increasing fees
Subscription and licences	1,299	1,026	27%	Underlying trend growth of licences and flat fees
Dairy data subscriptions	273	246	11%	Dependent on Diary Derivatives performance
Indicies revenue	166	168	-1%	Stable, unlikely to change
Other	0	53	-100%	Fundsource sold 21 June 2019
Total	**3,551**	**3,106**		

Source: NZX, Forsyth Barr analysis

Funds Under Management

Driven by the daily average level of Funds Under Management, January and February performances largely offset a weaker March period reflecting market movements. Net cash flows during the quarter remained stable at around NZ$80 flat on the prior year which saw NZ$475m for the full year.

Figure 5. Funds Under Management total revenue quarterly performance and outlook

Revenue stream (NZ$)	1Q20	1Q19	Change	Outlook
FUM	3,644	2,917	25%	Largely market driven, current average well above previous year

Source: NZX, Forsyth Barr analysis

Wealth Technologies

Wealth Technologies also saw March market performance impact Funds Under Administration, albeit to a lesser extent than that of Funds Under Management. Expectations for FY20E migration of Hobson Wealth and Saturn Advisory remain unchanged.

Figure 6. Wealth Technologies total revenue quarterly performance and outlook

Revenue stream (NZ$)	1Q20	1Q19	Change	Outlook
FUA	421	418	0.7%	Less impacted by market movements, targets remain unchanged

Source: NZX, 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.

Other key company and industry issues

- **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.

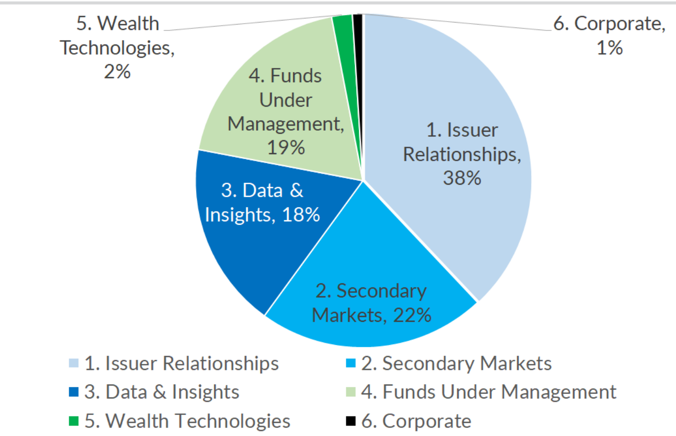
Upcoming catalysts/events

- **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

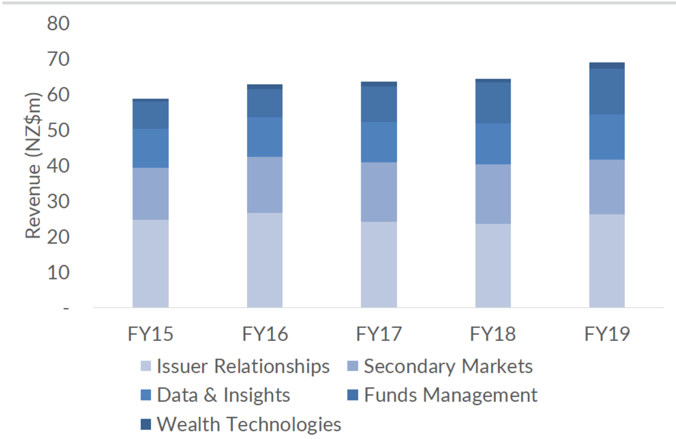
- **Market slowdown:** Earnings growth is reliant on an active market in trading and capital raising. Any economic or market slowdown would create a material headwind.

Figure 7. Revenue per segment FY19



Source: NZX, Forsyth Barr analysis

Figure 8. Growth in revenue by segment FY15–FY19



Source: NZX, Forsyth Barr analysis

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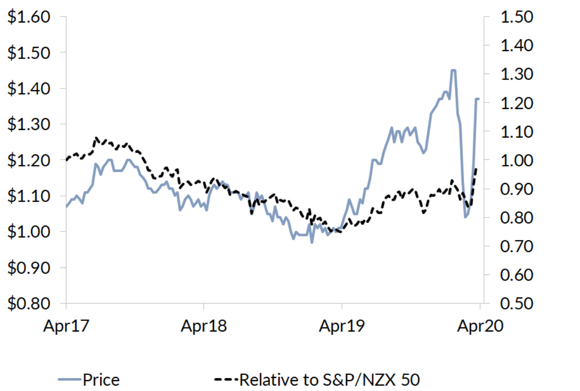
Figure 9. Price performance



Source: Forsyth Barr analysis

Figure 10. Substantial shareholders

Shareholder	Latest Holding
Aberdeen Asset Management Limited	9.1%
Highclere International Investors	6.0%
ACC	5.3%

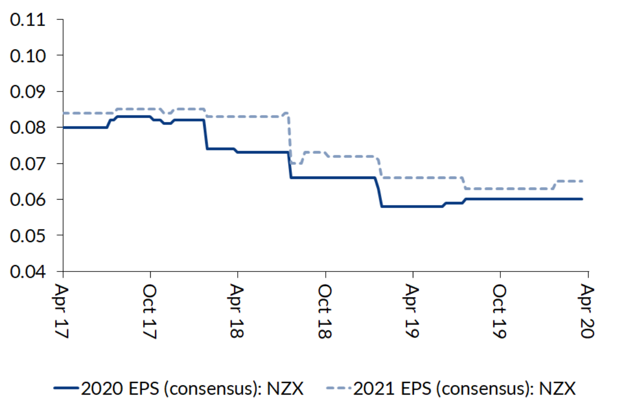
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 11. 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$1.29**	**NZ$349**	**24.1x**	**22.1x**	**10.5x**	**9.6x**	**15.0x**	**13.8x**	**4.7%**
ASX	ASX AT	A$83.00	A$16,068	31.4x	30.5x	22.4x	21.4x	24.1x	23.2x	3.0%
CME GROUP INC	CME US	US$184.32	US$66,075	24.0x	24.8x	18.8x	19.6x	19.7x	20.2x	3.8%
NASDAQ INC	NDAQ US	US$111.21	US$18,277	20.0x	19.6x	15.0x	14.6x	n/a	n/a	1.8%
LONDON STOCK EXCHANGE GROUP	LSE LN	£74.88	£26,316	34.5x	29.3x	20.5x	13.8x	23.9x	18.3x	1.1%
DEUTSCHE BOERSE AG	DB1 GR	€138.95	€26,401	21.3x	20.8x	14.3x	13.8x	16.2x	15.9x	2.4%
INTERCONTINENTAL EXCHANGE IN	ICE US	US$90.29	US$49,582	20.3x	19.8x	15.4x	15.0x	18.0x	17.5x	1.4%
TMX GROUP	X CN	C$122.36	C$6,890	20.8x	19.5x	16.7x	13.0x	17.8x	16.6x	2.3%
HONG KONG EXCHANGES & CLEAR	388 HK	HK$252.60	HK$320,256	30.5x	27.8x	15.9x	14.5x	16.7x	15.1x	3.2%
SINGAPORE EXCHANGE	SGX SP	S$9.73	S$10,410	22.8x	22.6x	15.9x	15.8x	18.6x	18.6x	3.5%
			Compco Average:	**25.1x**	**23.8x**	**17.2x**	**15.7x**	**19.4x**	**18.2x**	**2.5%**
EV = Current Market Cap + Actual Net Debt			**NZX Relative:**	**-4%**	**-7%**	**-39%**	**-39%**	**-22%**	**-24%**	**88%**

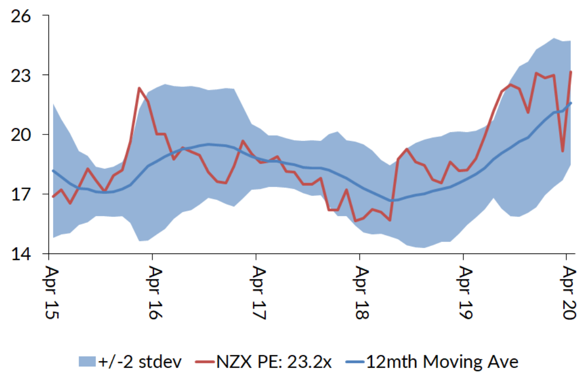
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (NZX) companies fiscal year end

Figure 12. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 13. One year forward PE (x)



Source: Forsyth Barr analysis

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