

# NZX

## Exchanging Uncertainty for Increasing Stability

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### OUTPERFORM

NZX reported a strong 1H20 result driven predominantly by a standout performance by the Secondary Markets division as a result of exceptional trading volumes. This was driven by consistently high market volatility. Earnings guidance for the full year remains unchanged with the company expecting to finish at the top end. We expect reduced market volatility and the number of equity secondary capital raises to slow in 2H20. However, in light of recent news flow, further market volatility would likely see upside risk to forecasts with NZX an established essential services operator. We are encouraged by the contract win and initial migration of JBWere as the fourth client in the Wealth Technologies business and are hopeful of additional contract wins. We are attracted to NZX's blend of growth and defensive qualities across its five divisions and supportive ESG characteristics. The company is well hedged to benefit from both market volatility during a downturn and also to any improvement in macroeconomic conditions given the exposure to domestic and international equities through the Funds Management business. We raise our target price to NZ\$1.95 in light of changes to our cost of capital inputs.

NZX Code	NZX	Financials: Dec/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.57	NPAT* (NZ\$m)	14.6	16.0	17.1	19.7	EV/EBITDA	13.6	12.9	12.5	11.3
Target price	NZ\$1.95	EPS* (NZc)	5.3	5.7	6.1	7.0	EV/EBIT	18.8	17.5	16.4	14.4
Risk rating	Medium	EPS growth* (%)	5.4	8.7	6.3	14.7	PE	29.7	27.3	25.7	22.4
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\$435m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.9	3.9	3.9	4.5
Avg daily turnover	287.1k (NZ\$378k)	*Based on normalised profits					Gross div yld (%)	5.4	5.4	5.4	6.2

### 1H20 earnings result driven by performance of core divisions

With a macroeconomic environment driving higher than usual market volatility, Secondary Markets benefited from an exceptionally high number of trades. Increased participation was across retail and institutional investors domestically and internationally. Issuer Relationships raised NZ\$6bn of secondary equity capital while the Data division saw significantly higher terminal and licence usage.

### Funds Businesses growing steadily

Funds Under Management saw the addition of four new ETF funds during 1H20 while net cash inflows were 5% higher than the previous year despite the exposure to international markets. The Wealth Technologies division continues to grow with the addition of NZ\$750m Funds Under Administration from JBWere migrated in June. Saturn and Hobson are still expected to be onboarded by the year end.

### Valuation and outlook – defensive qualities well placed to weather future storms

Although performance in 2H20 will be largely influenced by COVID-19, we see upside risk to ours and consensus forecasts. FY20 EBITDA guidance of NZ\$30–33.5m implies 2H20 EBITDA growth of -26% to -6%. We expect 2H20 EBITDA to be weaker in light of tough comps from the previous year and softening of COVID-19 tailwinds. We are, however, sanguine regarding corporate debt issuance in 2H20 and expect to see additional funds added in the Funds Under Management business across the remaining five months of the year. Within the Wealth Technologies division, we forecast NZ\$5.5bn Funds Under Administration for the full year against a company target of NZ\$5.5–6bn. The company exhibits a stable balance sheet, strong growth profile, sensible management and a current dividend yield of 3.9%. We believe stability and diversification to be highly attractive during times of uncertainty.

## NZX Ltd (NZX)

Priced as at 13 Aug 2020 (NZ\$)

1.57

### 12-month target price (NZ\$)\*

1.95

Expected share price return

24.2%

Net dividend yield

3.9%

Estimated 12-month return

28.1%

### Spot valuations (NZ\$)

1.DCF

1.95

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

540

(Net debt)/cash

9

Less: Capitalised operating leases

(28)

Value of equity

521

Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E
Sales revenue	64.5	69.5	75.0	78.1	85.1
<b>Normalised EBITDA</b>	<b>28.6</b>	<b>31.4</b>	<b>33.1</b>	<b>34.2</b>	<b>37.5</b>
Depreciation and amortisation	(7.2)	(8.6)	(8.8)	(8.2)	(8.1)
<b>Normalised EBIT</b>	<b>21.3</b>	<b>22.8</b>	<b>24.3</b>	<b>25.9</b>	<b>29.5</b>
Net interest	(1.3)	(2.0)	(1.9)	(1.9)	(1.9)
Associate income	0	0	0	0	0
Tax	(6.1)	(5.9)	(6.4)	(6.9)	(7.9)
Minority interests	0	0	0	0	0
<b>Normalised NPAT</b>	<b>13.7</b>	<b>14.6</b>	<b>16.0</b>	<b>17.1</b>	<b>19.7</b>
Abnormals/other	(2.0)	0	0	0	0
<b>Reported NPAT</b>	<b>11.6</b>	<b>14.6</b>	<b>16.0</b>	<b>17.1</b>	<b>19.7</b>
Normalised EPS (cps)	5.0	5.3	5.7	6.1	7.0
DPS (cps)	7.6	6.1	6.1	6.1	7.0

Growth Rates	2018A	2019A	2020E	2021E	2022E
Revenue (%)	-14.4	7.9	7.8	4.2	8.9
EBITDA (%)	-1.5	9.8	5.4	3.3	9.9
EBIT (%)	-2.8	6.7	6.7	6.8	13.6
Normalised NPAT (%)	-7.8	7.1	9.5	6.9	14.7
Normalised EPS (%)	-8.5	5.4	8.7	6.3	14.7
Ordinary DPS (%)	0.0	0.0	0.0	0.0	14.8

Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E
<b>EBITDA</b>	<b>28.6</b>	<b>31.4</b>	<b>33.1</b>	<b>34.2</b>	<b>37.5</b>
Working capital change	1.7	0.2	(0.4)	(0.2)	(0.5)
Interest & tax paid	(7.3)	(7.8)	(8.4)	(8.8)	(9.8)
Other	2.0	1.1	0	0	0
<b>Operating cash flow</b>	<b>24.9</b>	<b>24.8</b>	<b>24.3</b>	<b>25.1</b>	<b>27.2</b>
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
<b>Funding available/(required)</b>	<b>8.0</b>	<b>15.2</b>	<b>14.8</b>	<b>15.5</b>	<b>17.4</b>
Dividends paid	(17.5)	(12.8)	(13.8)	(17.0)	(18.4)
Equity raised/(returned)	0	0	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>(9.5)</b>	<b>2.4</b>	<b>1.0</b>	<b>(1.5)</b>	<b>(1.0)</b>

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
<b>Total funds employed</b>	<b>137.9</b>	<b>161.0</b>	<b>162.4</b>	<b>164.3</b>	<b>166.6</b>
Net debt/(cash)	(6.6)	(8.9)	(9.9)	(8.3)	(7.4)
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	66.7	67.4	69.1
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>137.9</b>	<b>161.0</b>	<b>162.4</b>	<b>164.3</b>	<b>166.6</b>

\* 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)	14.9	13.6	12.9	12.5	11.3
EV/EBIT (x)	19.9	18.8	17.5	16.4	14.4
PE (x)	31.3	29.7	27.3	25.7	22.4
Price/NTA (x)	n/a	n/a	n/a	n/a	n/a
Free cash flow yield (%)	3.6	3.8	3.4	3.6	4.0
Net dividend yield (%)	4.8	3.9	3.9	3.9	4.5
Gross dividend yield (%)	6.7	5.4	5.4	5.4	6.2

Capital Structure	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	16.8	11.7	12.7	13.5	15.5
Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Net debt/ND+E (%)	-12.0	-16.1	-17.4	-14.1	-11.9
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	11.3	12.0	13.5
Return on equity (%)	22.2	22.9	24.0	25.4	28.4
Return on funds employed (%)	27.9	30.7	31.4	32.3	34.9
EBITDA margin (%)	44.3	45.1	44.1	43.7	44.1
EBIT margin (%)	33.1	32.7	32.4	33.2	34.6
Capex to sales (%)	14.6	11.9	12.7	12.3	11.5
Capex to depreciation (%)	583	416	495	509	525
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	152	116	106	100	100

Operating Performance	2018A	2019A	2020E	2021E	2022E
<b>Revenue (NZ\$m)</b>					
Core markets	51.9	54.5	58.0	57.1	57.4
Funds services	12.5	14.6	16.7	20.7	27.4
Corporate	-	0.5	0.3	0.3	0.3
<b>Total revenue</b>	<b>64.5</b>	<b>69.5</b>	<b>75.0</b>	<b>78.1</b>	<b>85.1</b>
<b>Revenue % chg</b>					
Core markets	-0.8%	4.9%	6.4%	-1.5%	0.6%
Funds services	10.7%	16.4%	14.6%	24.2%	32.0%
<b>Total revenue</b>	<b>1.3%</b>	<b>7.9%</b>	<b>7.8%</b>	<b>4.2%</b>	<b>8.9%</b>

<b>EBITDA (NZ\$m)</b>					
Core markets	39.5	41.2	44.3	42.5	42.5
Funds services	4.8	5.2	5.8	8.1	12.3
Corporate	(15.7)	(15.0)	(17.0)	(16.4)	(17.2)
<b>Total EBITDA</b>	<b>28.6</b>	<b>31.4</b>	<b>33.1</b>	<b>34.2</b>	<b>37.5</b>

<b>EBITDA % chg</b>					
Core markets	#DIV/0!	4.2%	7.6%	-4.0%	-0.1%
Funds services	#DIV/0!	8.6%	12.1%	39.8%	51.6%
<b>Total EBITDA</b>	<b>-1.5%</b>	<b>9.8%</b>	<b>5.4%</b>	<b>3.3%</b>	<b>9.9%</b>

## 1H20 result predominantly driven by Secondary Markets

The first half result was driven by an exceptional number of trades in the Secondary Markets division as a result of heightened volatility, NZ\$6bn of secondary capital raised in the Issuer Relationships division, and elevated terminal and licence usage in the Data division.

**Figure 1. NZX 1H20 group result in line with expectations**

(NZ\$'000)	1H19	1H20E	1H20A	% chg
Revenue	33,360	38,425	38,418	0%
EBITDA	14,445	17,477	17,550	0%
EBITDA margin %	43%	45%	46%	0%
NPAT	6,448	8,772	9,083	4%

Source: Forsyth Barr analysis

**Figure 2. 1H20 Revenue reported vs forecast numbers**

Revenue NZ\$m	1H19	1H20E	1H20A	% chg
Issuer Relationships	12,115	13,061	13,091	0%
Secondary Markets	7,070	10,187	10,448	3%
Data & Insights	6,349	7,569	7,034	-7%
FUM	6,305	6,604	6,807	3%
Wealth Technologies	838	972	849	-13%
Corporate	186	109	189	73%
Total	32,863	38,502	38,418	0%

Source: Forsyth Barr analysis

**Figure 3. 1H20 EBITDA reported vs forecast numbers**

EBITDA NZ\$m	1H19	1H20E	1H20A	% chg	Comment
Issuer Relationships	9,448	10,440	10,263	-2%	NZ\$6bn of secondary equity capital raised 1H20, first new listing (MeToday) in June, corporate debt uplift expected 2H20
Secondary Markets	3,914	6,799	7,268	7%	Trades for 1H20 +216% with total value traded +52%. 2H20 largely unknown but expected to be ahead of 2H19
Data & Insights	5,422	6,702	5,939	-11%	Increased terminal usage. Higher than expected IT costs and professional fees, audit revenues expected to tailoff 2H20.
FUM	3,185	3,051	2,870	-6%	4 New ETFs added 1H20, more expected 2H20. Net cash inflows stable, fund expenses marginally higher than expected.
Wealth Technologies	(186)	(535)	(533)	0%	Fourth client (JBWere) won in June 20, Hobson Wealth and Saturn Advisory to be onboarded by FY20. Target NZ\$5.5-6bn.
Corporate	(7,338)	(8,893)	(8,257)	-7%	Lower costs than expected despite increased personnel costs from FTE increases, wage inflation and bonus accruals
Total	14,445	17,564	17,550	0%	

Source: Forsyth Barr analysis

## Changes to forecast

We update forecasts accordingly with little in the way of changes except a slowing of Audit Revenue in the Data division from FY20E.

**Figure 4. Changes to forecast FY20E-FY22E**

(NZ\$'000)	FY20E			FY21E			FY22E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	74,814	74,970	0.2%	78,532	78,121	-0.5%	85,319	85,099	-0.3%
EBITDA	32,950	33,071	0.4%	34,880	34,162	-2.1%	38,722	37,543	-3.0%
EBITDA margin %	44%	44.1%	0.1%	44.4%	43.7%	-0.7%	45.4%	44.1%	-1.3%
NPAT	16,026	16,035	0.1%	17,299	17,136	-0.9%	19,966	19,653	-1.6%
EPS (cent)	5.8	5.8	0.1%	6.2	6.1	-0.9%	7.2	7.0	-1.6%
DPS (cent)	6.1	6.1	0.0%	6.1	6.1	0.0%	7.0	7.0	0.0%

Source: Forsyth Barr analysis

## Valuation

We lower our WACC from 8.1% to 6.9% in light of changes to our cost of capital assumptions highlighted in our recent report, *"The cost of Capital: When TINA Came to Our Shores"*, 7 August 2020. We make no changes to our other assumptions, lifting our target price to NZ\$1.95. NZX is well positioned to benefit from both bull and bear market scenario outcomes. Heightened market volatility drives increased traded value in the Secondary Markets division during a downturn in combination with increased terminal usage in the Data division, while the Fund Management business is heavily exposure to domestic and international equities benefiting from longer term market growth.

## 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. **OUTPERFORM.**

### Key drivers

- **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.

### Other key company and industry issues

- **Capital markets performance:** Over 50% of NZX's revenues are derived from its capital markets related operations, including annual listing fees, data provision and IPO activity.
- **KiwiSaver and FUM:** NZX's Funds Management business is now beginning to achieve scale and operating leverage is becoming evident. Continued retail investment in Smartshare ETFs and a growing Kiwisaver base should provide further upside to this division.

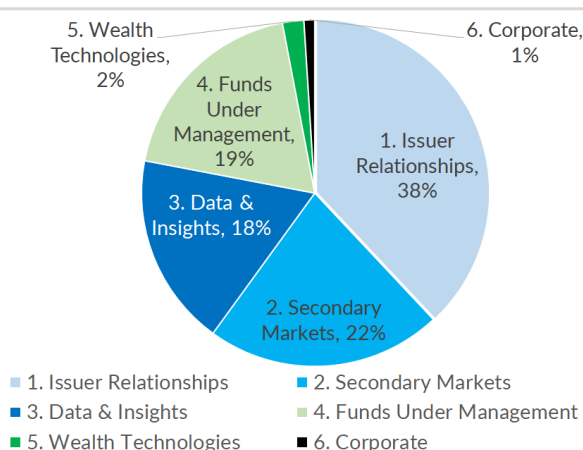
### Upcoming catalysts/events

- **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

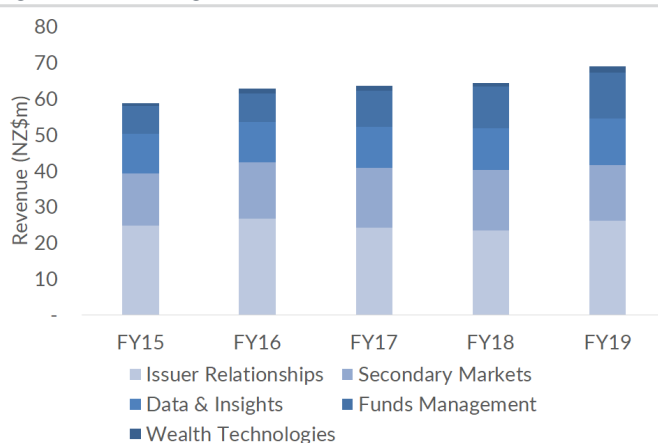
- **Market slowdown:** Earnings growth is reliant on an active market in trading and capital raising. Any economic or market slowdown would create a material headwind.

Figure 5. Revenue breakdown FY19

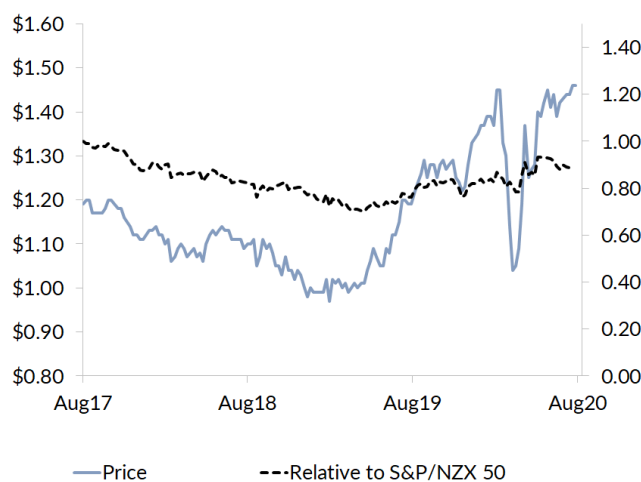


Source: Forsyth Barr analysis

Figure 6. Revenue growth by division FY15–FY19



Source: Forsyth Barr analysis

**Figure 7. Price performance**


Source: Forsyth Barr analysis

**Figure 8. Substantial shareholders**

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

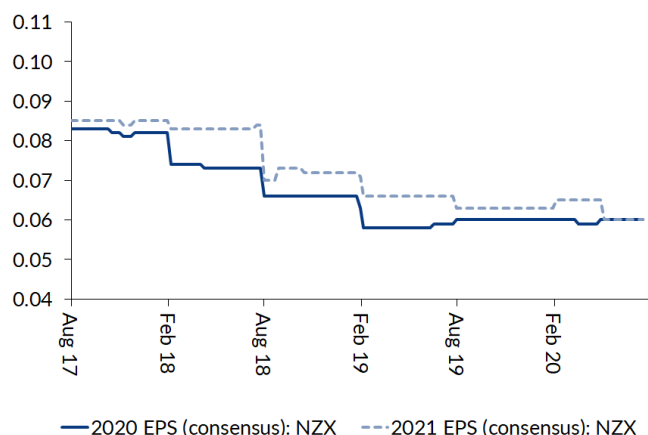
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 9. International valuation comparisons**

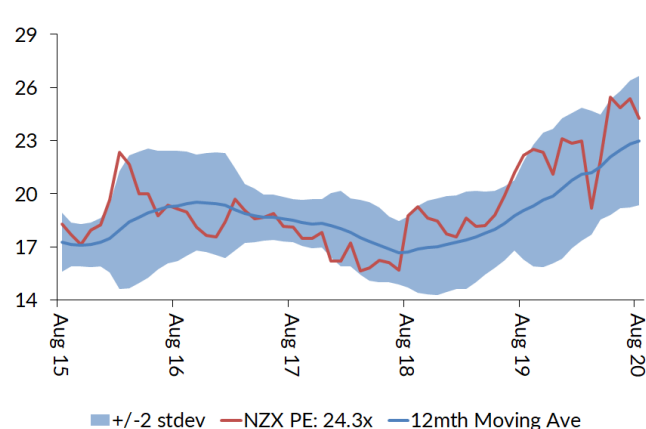
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
(metrics re-weighted to reflect NZX's balance date - December)										
NZX	NZX NZ	NZ\$1.57	NZ\$435	27.3x	25.7x	12.9x	12.5x	17.5x	16.4x	3.9%
ASX	ASX AT	A\$84.33	A\$16,326	32.6x	32.4x	23.0x	22.3x	24.8x	24.1x	2.8%
CME GROUP INC	CME US	US\$170.16	US\$61,024	24.1x	24.0x	19.0x	18.7x	20.2x	19.7x	4.0%
NASDAQ INC	NDAQ US	US\$130.73	US\$21,473	22.2x	22.2x	16.5x	16.3x	n/a	n/a	1.6%
LONDON STOCK EXCHANGE GROUP	LSE LN	£88.74	£31,187	43.1x	35.8x	22.9x	16.2x	28.8x	21.3x	1.0%
DEUTSCHE BOERSE AG	DB1 GR	€157.05	€29,840	23.9x	23.5x	15.9x	15.5x	18.3x	17.9x	2.1%
INTERCONTINENTAL EXCHANGE IN	ICE US	US\$99.47	US\$54,013	22.5x	21.5x	16.8x	16.2x	18.8x	17.9x	1.3%
TMX GROUP	X CN	C\$134.65	C\$7,612	22.6x	21.4x	16.6x	15.8x	19.7x	18.0x	2.1%
HONG KONG EXCHANGES & CLEAR	388 HK	HK\$369.80	HK\$468,846	44.0x	38.3x	13.7x	12.0x	14.4x	12.2x	2.4%
SINGAPORE EXCHANGE	SGX SP	S\$8.72	S\$9,321	20.7x	21.4x	14.0x	14.3x	16.5x	17.4x	3.8%
Compco Average:				28.4x	26.7x	17.6x	16.4x	20.2x	18.5x	2.3%
NZX Relative:				-4%	-4%	-27%	-24%	-13%	-11%	67%

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 10. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 11. One year forward PE (x)**


Source: Forsyth Barr analysis

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