Lift in earnings reflects strong foundations, support for Kiwi companies

- Operating earnings up 21.5% to $17.6m
- Net profit after tax (NPAT) was $9.1m, up 40.9%
- Nearly $6b of capital raised by companies to address COVID-19
- FY2020 operating earnings guidance range maintained at $30.0m to $33.5m

13 August 2020 – The 21.5% lift in operating earnings[1] to $17.6 million for the six months ended 30 June 2020 reflects the strategic foundations laid down by NZX, and a focus on meeting increased demand from Kiwi companies needing capital to address the impacts of COVID-19.

Chief Executive, Mark Peterson, said NZX was able to operate throughout this period, as an essential service, and "the pandemic brought into sharp relief the vital role of New Zealand's Exchange, and the value of being listed – ready access to new equity capital".

Nearly $6 billion of equity was raised by a broad range of companies, from Auckland Airport's $1.2 billion and $207 million by Kathmandu to some of NZX's smaller issuers also being able to effectively access the market for further capital – with Enprise raising just over $1 million and Cannasouth raising approximately $6 million.

Mr Peterson said this flowed through into a significant increase in secondary market trading for HY2020, which is reflected in NZX's financial results.

"While we have had to adjust to a very different business and working environment and reassess priorities as a result of COVID-19, our focus has been on meeting increased demand through a time of need from our customers, and this shows through in the lifts achieved in revenue and operating performance."

Net profit after tax for the period (NPAT) was $9.1 million, up 40.9% on HY2019. The Board has declared an interim dividend of 3.0 cents per share fully imputed, to be paid to shareholders on 18 September 2020. The Dividend Reinvestment Plan is available at a discount rate of 1%.

In reporting NZX's Interim Results, Mr Peterson said his team were "acutely conscious that we cannot yet see the full consequences of COVID-19. Significant underlying challenges remain for many companies locally, from the ongoing global health threat and related operational and financial impacts".

"This is a time of critical need for our customers and country, requiring further collective action, adaptation and innovation at pace." He paid tribute to how the team at NZX has worked as an essential service through what has been an uncertain and unsettling period.

NZX Chair, James Miller, said NZX's balance sheet remains conservatively set, with a profile that has supported corporate stability during the COVID-19 market event.

The foundations set down over the past three years, had also meant that NZX was able to respond effectively to the challenges COVID-19 presented.

"With the New Zealand Government successfully managing to contain the outbreak of COVID-19, both institutional and retail investors have strongly backed Kiwi businesses. As we signalled at our Annual Shareholders' Meeting in March, NZX's equity market was open and ready to help companies raise capital."

[1] Operating earnings are before net finance expense, income tax, depreciation, amortisation and gain and loss on disposal of business and property, plant and equipment. Operating earnings is not a defined performance measure in NZ IFRS. The Group's definition of operating earnings may not be comparable with similarly titled performance measures and disclosures by other entities.

“Companies have understood their options and appreciated the additional flexibility in capital raising rules provided by NZX, moving rapidly – with the scale of capital raisings multiples larger than the initial months following the 2008 Global Financial Crisis.”

“This action by companies has undoubtedly helped save many jobs in New Zealand and, to some extent, softened the economic shock for our country,” Mr Miller said.

ASSISTING COMPANIES IN NEED

The half-year saw a continuation of capital raisings through placements, share purchase plans and rights issues – including under innovative structures rarely seen in New Zealand, such as the accelerated non-renounceable entitlement offers (ANREO), enabled under the class relief provided by NZX Regulation.

“This enabled issuers to execute offers quickly during a fast-changing environment,” Mr Miller said. “Another important element of support for our listed issuers through COVID-19 has been the additional flexibility we have provided for reporting time-frames.”

The total value of capital raised in the first half of 2020 was up 6.5% to $8.2 billion, with new retail and wholesale debt listings making up $2.3 billion and the balance being $5.9 billion of secondary equity capital – mostly to address the impacts of COVID-19.

Against this backdrop, Mr Peterson said NZX was delighted to welcome its first new listing of 2020 with CSM Group completing the acquisition of Me Today, a New Zealand-founded health and wellness brand that produces premium quality products, linking supplements and natural skincare.

The debt market started the year well, with issues from BNZ, Housing New Zealand (Kāinga Ora – Homes and Communities) and the Local Government Funding Agency, prior to several months of disruption from COVID-19. NZX sees more positive signs in this space for the second half of 2020.

HEALTHY MARKET

Mr Peterson said the health of New Zealand’s capital markets has been critical during the COVID-19 outbreak.

“This has been apparent through the exceptionally high level of activity on our sharemarket, along with continued strong levels of international interest in our market.” The S&P/NZX 50 has proved a relatively resilient index – by June 30 it had recovered more than 34% from the low-point of March 2020 and outperformed other major global indices year-to-date.

The upsurge in market activity saw the daily number of trades average 48,000 across the first six months of 2020, and by early June the total number of trades had surpassed the full-year 2019. Value traded on NZX’s markets also set new records with the first half jumping 52.3% to nearly $28 billion, effectively three months ahead of 2019.

On-market trading continued its positive trend, averaging 62.4% across the half-year. This compares with 33% in 2015 and 54.3% in 2019. This multi-year improvement represents a step-change resulting from NZX’s focus on market liquidity as a primary measure of market integrity and price transparency and actions the company has taken to incentivise on-market activity.

RECORD TRADING ACTIVITY

The lift in on-market trades occurred in parallel with an increase in retail investor participation. Mr Peterson said the popularity of online retail trading platforms is burgeoning and, over the COVID-19 Alert Levels 3 and Level 4 in New Zealand, helped spur retail participation to levels never seen before in our sharemarket.

NZX secondary market trading by retail investors totalled around $2.1 billion for March and April 2020, up 135% on the same period in 2019. The number of trades climbed 361% and is up 1,264% over the past five years, assisting the growth of market liquidity.

Mr Miller said a healthy secondary market is a key goal for NZX.

“We want a dynamic, liquid, competitive, and transparent secondary market – and in recent years we have made two fundamental changes towards this outcome: removing the fixed fee component on trades in favour of a value-based fee structure, and introducing a new rules framework to support participants and broaden investment in markets.”

However, Mr Miller said the marked acceleration in the growth in trading activity – with daily trading volumes peaking at almost six-fold the 2019 daily average – exposed some stresses within specific elements of the market infrastructure, particularly on certain messaging components of NZX’s clearing and settlement system.

Although this huge increase in market activity is a good problem to have, to reflect the seriousness taken with issues related to NZX’s market systems, Mr Miller said NZX had commissioned an independent review of the technical issues and the underlying causes. This review has sought feedback from market participants and has received extremely strong engagement across all aspects of the market. Mr Miller thanked those who have contributed to the process.

“We look forward to the report, which is imminent, and engaging on the recommendations,” he said.

MILESTONES FOR GROWTH

Following the large boost last year in the assets held in the depository, NZX saw further growth in the first half, with total value closing at a new high over $3.7 billion, reflecting increasing values from Sharesies and BNP Paribas Securities.

Data & Insights achieved a strong lift in revenue, up more than 10% to $7.0 million, largely due to royalties for retail data access, as virtual (non-display) use increased 93% year-on-year. Client licence arrangements have improved and back-dated licencing revenue significantly higher due to a greater number of audit closures.

Volatility from COVID-19 seen in equity markets also flowed into dairy markets with the total volume of lots traded up nearly 10% to 205,626. The first quarter of 2020 was the largest trading quarter since the market was launched. Volumes of NZ Milk Price derivatives continued to grow with lots traded up 80% on the prior period, and the average daily value of trades reached a record $4 million in Q2 2020.

While market volatility presented challenges for NZX’s funds business, Smartshares, net investor cash flows were positive 5.4% for the period. As anticipated, there was an upswing in switching activity between funds, however withdrawals were relatively low. Having peaked near $4.1 billion in February, Funds Under Management dropped in March and April to $3.2 billion before recovering much of the lost ground to finish the half at $3.95 billion.

NZX Wealth Technologies has maintained its growth trajectory and focus on acquiring and transitioning customers, with Funds Under Administration growing 46.1% to $3.08 billion at half year. A migration project for JBWere was completed in June 2020 and the onboarding of new customers, Hobson Wealth Partners and Saturn Advice, to NZXWT’s market-leading platform is in progress.

FY2020 EARNINGS GUIDANCE

NZX is maintaining its FY2020 operating earnings guidance of $30.0 million to $33.5 million. NZX notes that, based on the performance to date, there is a greater expectation for a full year outcome to be towards the top end of the range.

This guidance is subject to market outcomes for the remainder of the year, including total capital raised, secondary market trading and clearing values, derivatives volumes traded, and funds under management and administration growth. NZX notes the global health and macroeconomic environment remains unusually volatile and guidance assumes no material adverse events, significant one-off expenses, major accounting adjustments or other unforeseen circumstances.

ENDS.

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About NZX

For more than 150 years we have been creating opportunities for Kiwis to grow their personal wealth and helping businesses prosper. As New Zealand’s Exchange, we are proud of our record in supporting the growth and global ambitions of local companies.

NZX operates New Zealand's equity, debt, funds, derivatives and energy markets. To support the growth of our markets, we provide trading, clearing, settlement, depository and data services for our customers. We also own Smartshares, New Zealand's only issuer of listed Exchange Traded Funds (ETFs), and KiwiSaver provider SuperLife. NZX Wealth Technologies is a 100%-owned subsidiary delivering rich online platform functionality to enable New Zealand investment advisors and providers to efficiently manage, trade and administer their client's assets. Learn more about us at: www.nzx.com