

19 January 2021

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Megaport Limited

Software & Services

UNDERPERFORM

MP1 A\$12.99
TARGET PRICE A\$9.50

Megaport Limited (MP1) is the global provider of Elastic Interconnection services. It deals in the provisioning of on-demand elastic interconnection services; the provisioning of internet exchange services; the addition and integration of new service providers into the Ecosystem; and continuing to expand the geographic footprint of its Network and Marketplace.

Company Data

Number of shares	154.8M
Market Capitalisation	\$2,010.45M
Free float (%)	84.4
12-month high/low	\$17.26/\$67.4
Average Daily Turnover (\$m)	2.0727
% S&P/ASX200	0.11%
DDM Ranking	N/A
% All Ordinaries	0.09%
GICS Industry Group	Software & Services

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	58.0	82.9	119.2	162.0
EBITDA (\$M)	-19.9	-13.0	11.2	38.7
Reported NPAT (\$M)	-47.7	-32.9	-11.5	9.8
Adjusted NPAT (\$M)	-47.4	-33.0	-10.0	12.0
Reported EPS (c)	-33.5	-21.4	-6.6	6.5
Adjusted EPS (c - FD)	-33.0	-20.6	-6.7	6.7
Adjusted EPS growth (%)	22.2	N/A	N/A	N/A
Adjusted P/E (x)	-39.4	-63.0	-193.8	192.7
Dividend (c/sh)	-	-	0.0	0.0
Gross yield (%)	-	-	0.0	0.0
Net yield (%)	-	-	0.0	0.0
ROIC (%)	-57.0	-46.2	-12.5	16.4

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

FY21 Performance Update

On 19 January Megaport Ltd (MP1) announced their trading performance for the period ending 31 December 2020 with the following highlights:

Outlook Summary

- Revenue for the quarter was \$18.7M which was an increase of \$1.4M from previous quarter;
- In December 2020, MP1 achieved 2,043 customers which was up 3% from prior quarter;
- Delivered \$0.6M in quarterly growth in underlying MRR which was the second highest to date;
- Rodney Foreman is joining the company as Chief Revenue Officer on 1 February 2021;
- Solid quarterly growth with underlying monthly revenue up 10% and reported monthly recurring revenue up 8%;
- Announcement of OVHCloud partnership to enable direct cloud connections globally;
- MP1 to launch Megaport Virtual Edge (MVE) in 2H FY21;
- Total enabled data centres was 386 at the end of the quarter;
- Average revenue per port in December 2020 as \$934 which is an increase of \$21 from prior quarter;
- Cash position was \$144.8M at the end of December 2020;

Ecosystem Expansion Update

- 97 installed data centres in Asia Pacific with a total of 124 enabled data centres;
- 184 installed data centres in North America with a total of 390 enabled data centres;
- 105 installed data centres in Europe with a total of 202 enabled data centres;
- 220 total cloud onramps globally with the addition of five in the quarter;

MP1 CEO, Vincent English, stated "At the halfway mark through Fiscal Year 2021, Megaport is in an excellent position to continue growing our market share for cloud connectivity. The launch of MVE in 2H FY21 will increase our addressable market and open new channel opportunities to strengthen our revenue growth."

The appointment of Rodney Foreman as CRO comes at an opportune time to align our sales organisation and revenue generation initiatives with MVE's capabilities."

Earnings changes

MP1 has reported strong growth for the quarter with revenue for H1 FY21 totalling \$36M. However, this is consistent with market expectations of \$82.9M for the full year. Hence, we do not expect any significant earnings revisions.

Valuation

We are initiating on MP1 a 12-month price target of \$9.50 and an UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)