Equinix Inc (EQIX)

Updated April 13th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$704	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$63 B
Fair Value Price:	$635	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	05/19/2021
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date[2]:**	06/17/2021
Dividend Yield:	1.6%	**5 Year Price Target:**	$1,022	**Years of Dividend Growth:**	5
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	8%

Overview & Current Events

Equinix (composed from the words "equality", "neutrality" and "internet exchange") is a real estate investment trust (REIT) which specializes in data centers. The trust operates 227 data centers across 26 countries on 5 continents serving over 10,000 customers. Slightly less than half of the data centers are outright owned by Equinix, and these generate 55% of recurring revenues. EQIX reports revenue in a couple different segments: colocation, interconnection, managed infrastructure and other. The corporation has just over 10,000 employees worldwide. The Interconnection Solutions segment allow customers to connect directly, securely, and dynamically within and between other EQIX data centers around the globe. There are currently 392,000+ total interconnections. Customers of EQIX are telecommunications carriers, mobile and network service providers, cloud and IT service providers, digital media and content providers, and financial services companies. Equinix boasts of a 99.99% operational uptime across their global data centers in 2020.

Equinix was incorporated on June 22nd, 1998 and made the conversion to an REIT beginning in 2015. The corporation is headquartered in Redwood City, California. It trades under the ticker symbol EQIX on the NASDAQ. The market capitalization is $63 billion. In 2020, 94% of total revenue was recurring.

Equinix released fourth quarter and full-year 2020 results on February 10th. The company announced an 8% increase to 2020 annual revenue year-over-year to roughly $6 billion on a constant currency basis. Incredibly, this is the trust's 72nd quarter of sequential revenue growth. Adjusted funds from operations (AFFO) increased 18% on a normalized and constant currency basis to $2.19 billion. AFFO per share rose 9% compared to the previous year, to $24.76. The AFFO payout ratio of 43% for 2020 is quite conservative.

Equinix continues to expand on its platform and is building 44 projects across 30 markets and 20 countries. Interconnection revenue grew 14% YoY driven by the Equinix Fabric program. In Q4, EQIX added 7,700 interconnections which is more than its next 15 competitors combined. Equinix Internet Exchange achieved peak traffic, up 43% YoY.

Management has provided 2021 annual guidance and expects a roughly 10% increase in revenues to $6.6 billion. Guidance also calls for AFFO of roughly $2.44 billion, a 10% increase over 2020. Excluding any capital market activities, they also estimate AFFO per share gains of 9% to $27.00.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFO	$9.97	$11.33	$12.13	$13.81	$13.86	$15.06	$18.53	$20.69	$22.81	$24.76	**$27.00**	**$43.48**
DPS	$0.00	$0.00	$0.00	$7.57	$17.71	$7.00	$8.00	$9.12	$9.84	$10.64	**$11.48**	**$18.49**
Shares[3]	47.9	51.8	50.1	56.5	62.1	70.8	77.6	80.2	84.7	88.4	**90.0**	**100.0**

EQIX has grown revenues for 18 years straight, and the company's bottom line has also been on a straight uptrend for many years, over a decade. For the past 5 average years, EQIX has been able to grow its AFFO by 12.3%. Special dividends were paid in 2014 and 2015 due to the corporation converting to an REIT. In real normal dividend terms, the trust has accomplished 5 years of consecutive dividend growth. We expect that they will be able to grow AFFO and

[1] Estimate
[2] Estimate
[3] In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

dividends concurrently from here on out, at an average rate of 10%. We also expect the share count to continue growing as they raise capital to fund some growth projects, though for the time being FFO should suffice for capex costs as the payout ratio is low. Growth will be achieved as Equinix grows its global platform and continues adding new data centers to its portfolio, as well as increasing interconnections and other data services.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/AFFO	9.4	14.7	15.9	14.6	18.9	22.8	23.1	20.0	21.8	28.1	**26.1**	**23.5**
Avg. Yld.	0.0%	0.0%	0.0%	3.7%	6.8%	2.0%	1.8%	2.1%	1.9%	1.5%	**1.6%**	**1.8%**

The current P/AFFO of 26.1 based on 2021's estimated AFFO represents a 12.5% premium to the 5-year average of 23.2. We place our fair value estimate at 23.5 times AFFO, which would result in valuation losses of 2.1% annually due to multiple contraction. The valuation is a little on the high side, but we believe EQIX has earned it with such a strong and successful technology focus.

Safety, Quality, Competitive Advantage, & Recession Resiliency

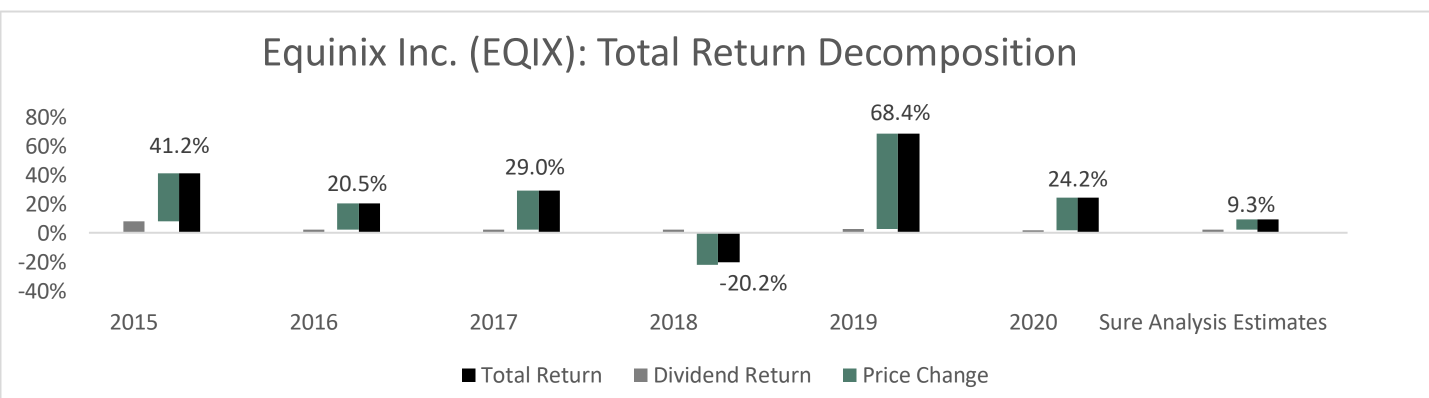
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	0%	0%	0%	55%	128%	46%	43%	44%	43%	43%	**43%**	**43%**

The payout ratio for EQIX is calculated as dividends per share divided by AFFO. The average 5-year payout ratio of 44% is well covered, and leaves plenty of room for growth. The trust's competitive advantage among the world of data center REITs is its global platform spanning 26 countries and which contains the industry's largest and most active ecosystem of partners in their centers, creating a network effect that improves performance and lowers cost for customers. The trust has an S&P credit Rating of BBB-, and a consolidated net debt-to-adjusted-EBITDA of 3.8x, in-line with the 3 – 4x range set by management. EQIX was negatively affected by the Great Recession as net income dipped nearly in half, but the corporation paid no dividend at the time. It took until 2012 to surpass the net income levels seen in 2008. The COVID pandemic had the opposite effect of the Great Financial Crisis on EQIX as technology and data use increased significantly with stay-at-home orders and remote work and school, effectively boosting adjusted funds from operations.

Final Thoughts & Recommendation

Equinix is the largest data center REIT and is well diversified geographically and by revenue segment. EQIX became an REIT five years ago and since then has grown its dividend for 5 consecutive years, and we see this continuing. While we believe the stock is trading just above fair value, estimated total returns of 9.3% are strong and stable. Most of this return will come from growth as the yield is low for an REIT at 1.6%, and we expect a minor valuation contraction. We rate EQIX a buy for investors interested in growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,566	1,887	2,153	2,444	2,726	3,612	4,368	5,072	5,562	5,999
Gross Profit	737	943	1,088	1,246	1,434	1,791	2,175	2,466	2,752	2,924
Gross Margin	47.0%	50.0%	50.6%	51.0%	52.6%	49.6%	49.8%	48.6%	49.5%	48.7%
SG&A Exp.	424	531	621	734	825	1,133	1,328	1,460	1,586	1,809
D&A Exp.	348	399	432	482	526	837	1,042	1,227	1,285	1,423
Operating Profit	313	412	467	512	609	658	848	1,006	1,166	1,115
Op. Margin	20.0%	21.8%	21.7%	20.9%	22.3%	18.2%	19.4%	19.8%	21.0%	18.6%
Net Profit	95	140	95	(260)	188	127	233	365	507	370
Net Margin	6.1%	7.4%	4.4%	-10.6%	6.9%	3.5%	5.3%	7.2%	9.1%	6.2%
Free Cash Flow	(98)	(132)	32	29	27	(94)	61	(281)	(87)	27

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5785	6136	7492	7782	10357	12608	18691	20245	23966	27007
Cash & Equivalents	279	252	262	611	2229	748	1413	606	1870	1605
Goodwill & Int.	1015	1244	1226	1150	1288	3705	6797	7170	6884	7643
Total Liabilities	3833	3822	5033	5512	7611	8243	11842	13025	15125	16373
Accounts Payable	23	28	30	30	50	60	102	97	52	78
Long-Term Debt	2697	2450	3227	3455	5194	5248	8381	9814	10320	10538
Total Equity	1952	2313	2459	2270	2745	4366	6850	7219	8841	10634
D/E Ratio	1.38	1.06	1.31	1.52	1.89	1.20	1.22	1.36	1.17	0.99

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.9%	2.3%	1.4%	-3.4%	2.1%	1.1%	1.5%	1.9%	2.3%	1.5%
Return on Equity	4.9%	6.6%	4.0%	-11.0%	7.5%	3.6%	4.2%	5.2%	6.3%	3.8%
ROIC	2.3%	3.0%	1.8%	-4.5%	2.7%	1.4%	1.9%	2.3%	2.8%	1.8%
Shares Out.	47.9	51.8	50.1	56.5	62.1	70.8	77.6	80.2	84.7	88.4
Revenue/Share	32.69	36.42	42.96	46.67	46.61	51.01	56.34	63.24	65.69	67.85
FCF/Share	(2.05)	(2.56)	0.64	0.56	0.46	(1.33)	0.78	(3.50)	(1.03)	0.31

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.