



Equinix Inc (EQIX)

Updated April 27th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$736	5 Year CAGR Estimate:	9.0%	Market Cap:	\$68.5 B
Fair Value Price:	\$684	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	05/17/2022
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	06/15/2022
Dividend Yield:	1.7%	5 Year Price Target:	\$1,052	Years of Dividend Growth:	5
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Buy

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 244 data centers across 30 countries on 6 continents serving over 10,000 customers. Slightly less than half of the data centers are outright owned by Equinix, and these generate 60% of recurring revenues. EQIX reports revenue in a couple different segments: colocation, interconnection, managed infrastructure and other. The corporation has 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 428,000+ 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 2021.

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 \$68.5 billion. In 2021, 94% of total revenue was recurring.

Equinix released first quarter results on April 27th. The company announced a 9% increase in revenue over the same quarter last year, to \$1.7 billion, while normalized, constant currency revenue grew 10%. The company has achieved 77 consecutive quarters of revenue growth. Adjusted funds from operations (AFFO) for the quarter was \$653 million. AFFO per share for the quarter increased 2.6% compared to Q1 2021 to \$7.16. The AFFO payout ratio of 43% for the first quarter is quite conservative. Equinix continues to expand on its platform and has 43 major projects in development across 29 markets and 20 countries. Interconnection revenue grew 9.8% YoY driven by the Equinix Fabric program. For the quarter, EQIX added 8,900 interconnections.

In April, the company completed its acquisition of MainOne, and its resulting expansion into Africa. MainOne is a leading data center with operations in Nigeria, Ghana, and Côte d'Ivoire.

Management has upgraded 2022 annual guidance and expects a roughly 10.5% increase in revenues to \$7.32 billion. Guidance also calls for AFFO of roughly \$2.67 billion, an 8.5% increase over 2021. Excluding any capital market activities, they also estimate AFFO per share gains of 7.3% to \$29.10.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFO	\$11.33	\$12.13	\$13.81	\$13.86	\$15.06	\$18.53	\$20.69	\$22.81	\$24.76	\$27.11	\$29.10	\$44.77
DPS	\$0.00	\$0.00	\$7.57	\$17.71	\$7.00	\$8.00	\$9.12	\$9.84	\$10.64	\$11.48	\$12.40	\$19.08
Shares¹	51.8	50.1	56.5	62.1	70.8	77.6	80.2	84.7	88.4	90.4	91.0	100.0

EQIX has grown revenues for 19 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 dividends concurrently from here on out, at an average rate of 9%. 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

¹ In millions

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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/AFFO	14.7	15.9	14.6	18.9	22.8	23.1	20.0	21.8	28.1	28.3	25.3	23.5
Avg. Yld.	0.0%	0.0%	3.7%	6.8%	2.0%	1.8%	2.1%	1.9%	1.5%	1.5%	1.7%	1.8%

The current P/AFFO of 25.3 based on 2022's estimated AFFO is above the 5-year average of 24.3. We place our fair value estimate at 23.5 times AFFO, which would result in estimated valuation losses of 1.5% 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

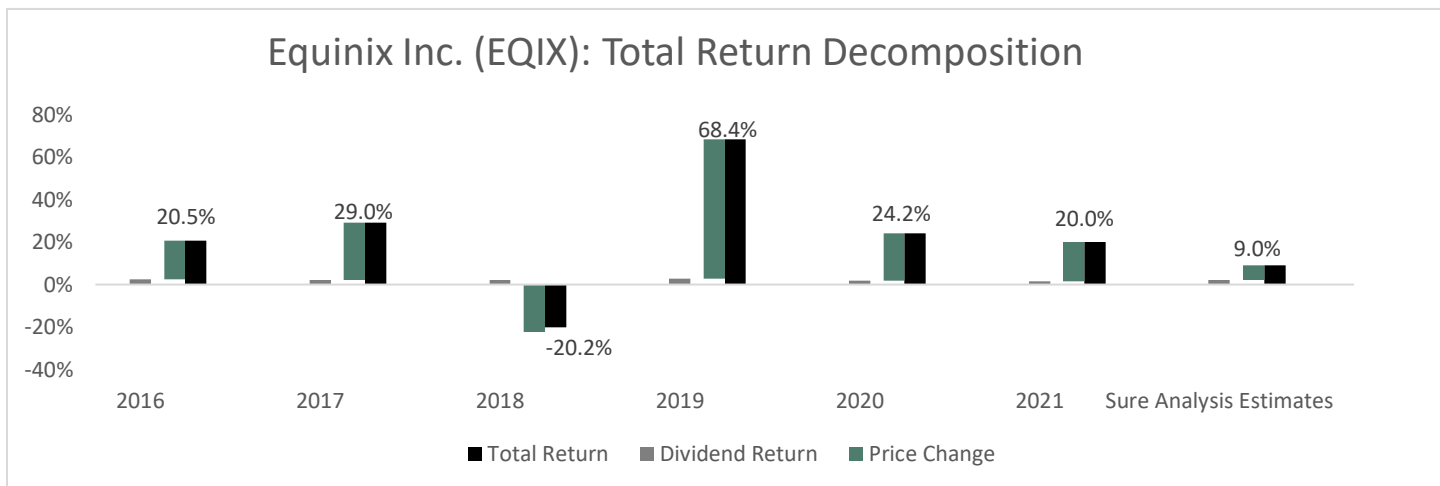
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	0%	0%	55%	128%	46%	43%	44%	43%	43%	42%	43%	43%

The payout ratio for EQIX is calculated as dividends per share divided by AFFO. The average 5-year payout ratio of 43% 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 30 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, at the top of 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 above fair value, estimated annualized total returns of 9.0% are strong. Most of this return will come from growth as the yield is low for an REIT at 1.7%, offset by 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,887	2,153	2,444	2,726	3,612	4,368	5,072	5,562	5,999	6,636
Gross Profit	943	1,088	1,246	1,434	1,791	2,175	2,466	2,752	2,924	3,163
Gross Margin	50.0%	50.6%	51.0%	52.6%	49.6%	49.8%	48.6%	49.5%	48.7%	47.7%
SG&A Exp.	531	621	734	825	1,133	1,328	1,460	1,586	1,809	2,043
D&A Exp.	399	432	482	526	837	1,042	1,227	1,285	1,423	1,656
Operating Profit	412	467	512	609	658	848	1,006	1,166	1,115	1,120
Op. Margin	21.8%	21.7%	20.9%	22.3%	18.2%	19.4%	19.8%	21.0%	18.6%	16.9%
Net Profit	140	95	-260	188	127	233	365	507	370	500
Net Margin	7.4%	4.4%	-10.6%	6.9%	3.5%	5.3%	7.2%	9.1%	6.2%	7.5%
Free Cash Flow	-132	32	29	27	-94	61	-281	-87	27	-204
Income Tax	59	16	345	23	45	54	68	185	146	109

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,136	7,492	7,782	10,357	12,608	18,691	20,245	23,966	27,007	27,919
Cash & Equivalents	252	262	611	2,229	748	1,413	606	1,870	1,605	1,536
Goodwill & Int.	164	185	263	292	396	576	630	689	677	682
Total Liabilities	3,822	5,033	5,512	7,611	8,243	11,842	13,025	15,125	16,373	17,037
Accounts Payable	28	30	30	50	60	102	97	52	78	84
Long-Term Debt	2,450	3,227	3,455	5,194	5,248	8,381	9,814	10,320	10,538	11,604
Total Equity	2,313	2,459	2,270	2,745	4,366	6,850	7,219	8,841	10,634	10,882
LTD/E Ratio	1.06	1.31	1.52	1.89	1.20	1.22	1.36	1.17	0.99	1.07

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.3%	1.4%	-3.4%	2.1%	1.1%	1.5%	1.9%	2.3%	1.5%	1.8%
Return on Equity	6.6%	4.0%	-11.0%	7.5%	3.6%	4.2%	5.2%	6.3%	3.8%	4.6%
ROIC	3.0%	1.8%	-4.5%	2.7%	1.4%	1.9%	2.3%	2.8%	1.8%	2.3%
Shares Out.	51.8	50.1	56.5	62.1	70.8	77.6	80.2	84.7	88.4	90.4
Revenue/Share	36.42	42.96	46.67	46.61	51.01	56.34	63.24	65.69	67.85	73.39
FCF/Share	-2.56	0.64	0.56	0.46	-1.33	0.78	-3.50	-1.03	0.31	-2.26

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

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