Equinix Inc (EQIX)

Updated November 3rd, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$586	**5 Year CAGR Estimate:**	13.2%	**Market Cap:**	$50 B
Fair Value Price:	$672	**5 Year Growth Estimate:**	8.5%	**Ex-Dividend Date:**	11/15/2022
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date:**	12/14/2022
Dividend Yield:	2.1%	**5 Year Price Target:**	$1,010	**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 249 data centers across 32 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 61% 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 443,000+ 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 $50 billion. In 2021, 94% of total revenue was recurring.

Equinix reported third quarter results on November 2nd. The company announced a 10% increase in revenue compared to the same quarter last year, to $1.8 billion. The company has achieved 79 consecutive quarters of revenue growth. Adjusted funds from operations (AFFO) for the quarter was $712 million. AFFO per share for the quarter increased 11% compared to Q3 2021 to $7.73. The AFFO payout ratio of 40% for the third quarter is safe. Equinix continues to expand on its platform and has 46 major projects in development across 31 markets and 21 countries. Interconnection revenue grew 9.3% year-over-year. For the quarter, EQIX added 7,300 interconnections.

Management has updated 2022 annual guidance and expects a roughly 9.0% increase (down from 9.5% previously) in revenues to $7.25 billion. Guidance also calls for AFFO of roughly $2.69 billion, a 9.5% (up from 8.5% previously) increase over 2021. They also estimate AFFO per share gains of 7.5% to $29.21.

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	***$29.21***	***$43.92***
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***
Shares[1]	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 8.5%. 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.

[1] In millions

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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	***20.1***	***23.0***
Avg. Yld.	0.0%	0.0%	3.7%	6.8%	2.0%	1.8%	2.1%	1.9%	1.5%	1.5%	***2.1%***	***1.8%***

The current P/AFFO of 20.1 based on 2022's estimated AFFO is below the 5-year average of 24.3. We place our fair value estimate at 23.0 times AFFO, which would result in estimated valuation gains of 2.8% annually due to multiple expansion. 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

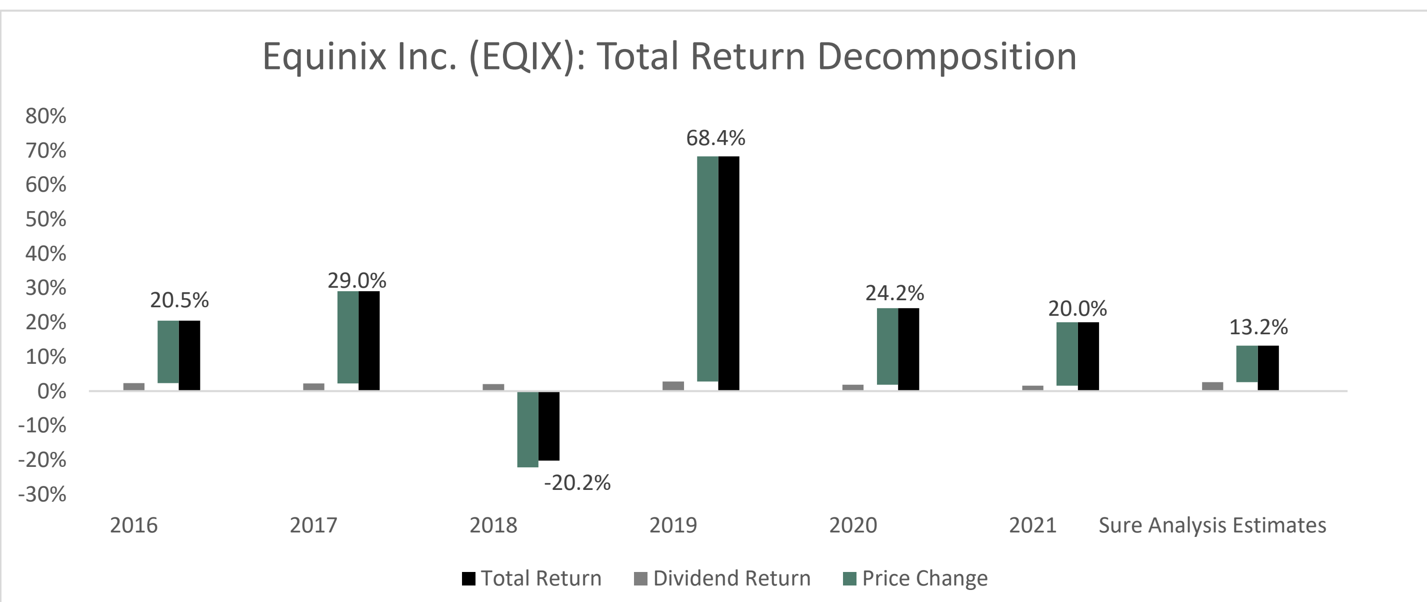
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	0%	0%	55%	128%	46%	43%	44%	43%	43%	42%	***42%***	***42%***

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 32 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 3.5x, in the middle 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 below fair value, estimated annualized total returns of 13.2% are strong. Most of this return will come from growth as the yield is low for an REIT at 2.1%. We rate EQIX as a buy for investors interested in growth.

Total Return Breakdown by Year



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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.

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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.