



Equinix Inc (EQIX)

Updated May 7th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$740	5 Year CAGR Estimate:	9.3%	Market Cap:	\$69 B
Fair Value Price:	\$726	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	05/23/2023
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	06/21/2023
Dividend Yield:	1.8%	5 Year Price Target:	\$1,067	Years of Dividend Growth:	7
Dividend Risk Score:	B	Retirement Suitability Score:	D	Rating:	Hold

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 248 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 63% of recurring revenues. EQIX reports revenue in a couple of different segments: colocation, interconnection, managed infrastructure and other. 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 452,000+ 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.

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 \$69 billion. In 2022, 95% of total revenue was recurring.

On February 15th, 2023, Equinix announced a 10% increase to the dividend to \$3.41 quarterly per share.

Equinix reported first quarter 2023 results on May 3rd, 2023. For the quarter, the company announced a 15% increase in revenue compared to Q2 2022, to \$2.0 billion. The company has thus achieved 81 consecutive quarters of revenue growth. Adjusted funds from operations (AFFO) for the quarter was \$802 million. AFFO per share increased 21% compared to the previous quarter to \$8.59. The AFFO payout ratio of 40% for Q1 was safe. Interconnection revenue grew 9% year-over-year.

Equinix continues to expand on its platform and has 50 major projects in development across 37 markets.

Management provided 2023 annual guidance and expects a roughly 13.5% increase in revenues to \$8.23 billion.

Guidance also calls for AFFO of roughly \$2.97 billion, a 9.5% increase over 2022. They also estimate AFFO per share gains of 6.5% to \$31.58.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
AFFO	\$12.13	\$13.81	\$13.86	\$15.06	\$18.53	\$20.69	\$22.81	\$24.76	\$27.11	\$29.55	\$31.58	\$46.40
DPS	\$0.00	\$7.57	\$17.71	\$7.00	\$8.00	\$9.12	\$9.84	\$10.64	\$11.48	\$12.40	\$13.64	\$20.04
Shares¹	50.1	56.5	62.1	70.8	77.6	80.2	84.7	88.4	90.4	91.8	93.0	100.0

EQIX has grown revenues for 20 years straight, and the company's bottom line has also been on a straight uptrend for many years, over a decade. For the past nine and five years, Equinix has been able to grow its AFFO at an average annual rate of 10%. 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 6 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%. 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

¹ In millions

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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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/AFFO	15.9	14.6	18.9	22.8	23.1	20.0	21.8	28.1	28.3	22.7	23.4	23.0
Avg. Yld.	0.0%	3.7%	6.8%	2.0%	1.8%	2.1%	1.9%	1.5%	1.5%	1.7%	1.8%	1.9%

The current P/AFFO of 23.4 based on 2023's estimated AFFO is below the 5-year average of 24.2. We place our fair value estimate at 23.0 times AFFO, which would result in a minor valuation change. 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

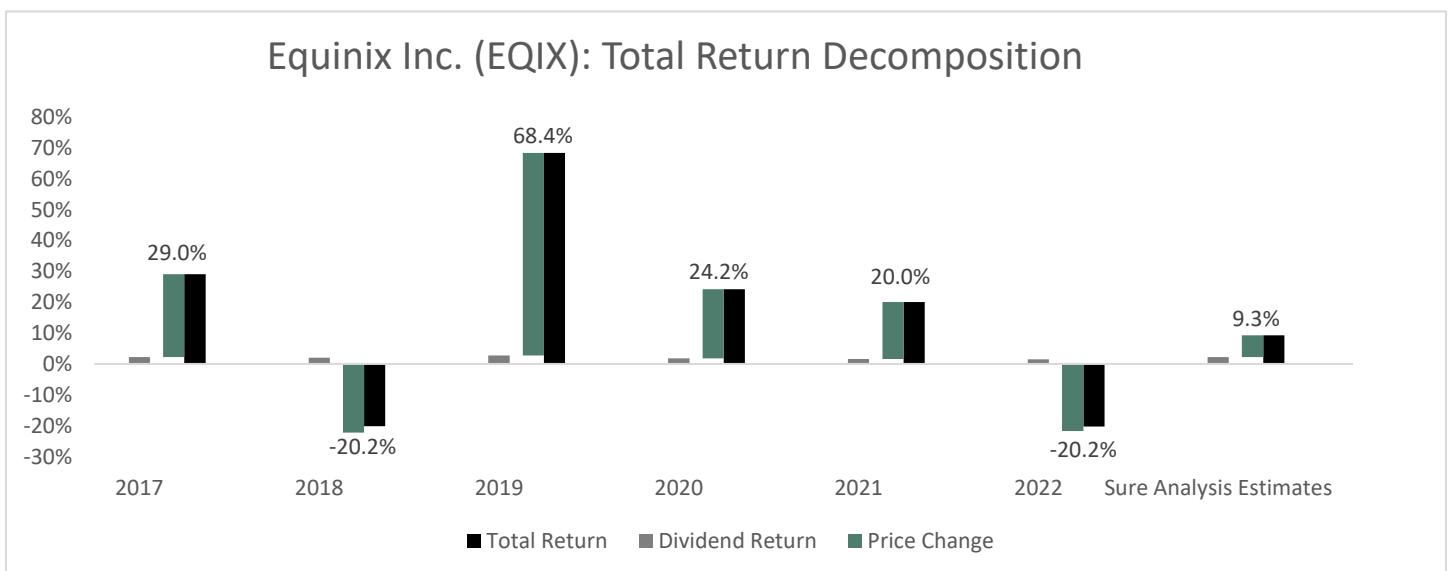
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	0%	55%	128%	46%	43%	44%	43%	43%	42%	42%	43%	43%

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 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 3.4X, within 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 seven years ago and since then has grown its dividend for 7 consecutive years, and we see this continuing. While we believe the stock is trading at fair value, estimated annualized total returns of 9.3% are strong. Most of this return will come from growth as the yield is low for an REIT at 1.8%. We rate EQIX as a hold for investors interested in growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,153	2,444	2,726	3,612	4,368	5,072	5,562	5,999	6,636	7,263
Gross Profit	1,088	1,246	1,434	1,791	2,175	2,466	2,752	2,924	3,163	3,512
Gross Margin	50.6%	51.0%	52.6%	49.6%	49.8%	48.6%	49.5%	48.7%	47.7%	48.3%
SG&A Exp.	621	734	825	1,133	1,328	1,460	1,586	1,809	2,043	2,285
D&A Exp.	432	482	526	837	1,042	1,227	1,285	1,423	1,656	1,736
Operating Profit	467	512	609	658	848	1,006	1,166	1,115	1,120	1,226
Op. Margin	21.7%	20.9%	22.3%	18.2%	19.4%	19.8%	21.0%	18.6%	16.9%	16.9%
Net Profit	95	-260	188	127	233	365	507	370	500	704
Net Margin	4.4%	-10.6%	6.9%	3.5%	5.3%	7.2%	9.1%	6.2%	7.5%	9.7%
Free Cash Flow	32	29	27	-94	61	-281	-87	27	-204	685
Income Tax	16	345	23	45	54	68	185	146	109	125

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,492	7,782	10,357	12,608	18,691	20,245	23,966	27,007	27,919	30,311
Cash & Equivalents	262	611	2,229	748	1,413	606	1,870	1,605	1,536	1,906
Account Receivable	185	263	292	396	576	630	689	677	682	855
Total Liabilities	5,033	5,512	7,611	8,243	11,842	13,025	15,125	16,373	17,037	18,805
Accounts Payable	30	30	50	60	102	97	52	78	84	116
Long-Term Debt	3,227	3,455	5,194	5,248	8,381	9,814	10,320	10,538	11,604	12,762
Total Equity	2,459	2,270	2,745	4,366	6,850	7,219	8,841	10,634	10,882	11,506
LTD/E Ratio	1.31	1.52	1.89	1.20	1.22	1.36	1.17	0.99	1.07	1.11

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.4%	-3.4%	2.1%	1.1%	1.5%	1.9%	2.3%	1.5%	1.8%	2.4%
Return on Equity	4.0%	-11.0%	7.5%	3.6%	4.2%	5.2%	6.3%	3.8%	4.6%	6.3%
ROIC	1.8%	-4.5%	2.7%	1.4%	1.9%	2.3%	2.8%	1.8%	2.3%	3.0%
Shares Out.	50.1	56.5	62.1	70.8	77.6	80.2	84.7	88.4	90.4	91.8
Revenue/Share	42.96	46.67	46.61	51.01	56.34	63.24	65.69	67.85	73.39	79.09
FCF/Share	0.64	0.56	0.46	-1.33	0.78	-3.50	-1.03	0.31	-2.26	7.46

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

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