

| Megaport Limited (MP1) | | | | CASE: | Bull | DATE: | 12/08/2021 | | | |
|---|-----------|---------------|---|---|-------|--|------------|---------|--------|---------|
| The Story | | | | | | | | | | |
| Megaport is a Network as a Service (NaaS) business that is still in early days of building the infrastructure to support the global move to the cloud. Offering improved functionality and cost savings to customers it is the leader in SD-WAN infrastructure and with an innovative leadership and culture it continues to expand and grow its service offering and relevance to customers, accelerating revenue growth. A global opportunity and expanding market offers the long run way for growth needed for MP1 to scale to profitability and FCF positive both of which are several years off. Now operating at EBITDA positive, margin expansion and scale advantages provide large operating leverage opportunities to deliver high FCF's at scale. While capital intensive, high ROCE and a bullish outlook on growth make a compelling business case for a very long term focused investor. | | | | | | | | | | |
| The Assumptions | | | | | | | | | | |
| What | Base Year | Terminal Year | Link to story | | | | | | | |
| Revenue KPI | - | - | No single growth driver due to the multi dimensional growth paths of the business | | | | | | | |
| Revenue | 32.9% | 3.5% | Above system growth rates in the terminal year allow for innovative evolution in the business | | | | | | | |
| Gross Margin % | 53.9% | 76.0% | With AU already at 73% GM, the company should be able to reach 76% in total in 10 years | | | | | | | |
| EBITDA Margin % | -29.5% | 60.5% | Operating leverage from improving GM% and shrinking Opex% | | | | | | | |
| Tax | 12.1% | 27.5% | Standard rates, but tax losses carried forward included in calculation | | | | | | | |
| Capital Spend | 23,182 | 13,296 | Linked to a reducing proportion of sales growth. | | | | | | | |
| Share Count Changes | 156,598 | 175,380 | ESOP 1% increase on average assumed | | | | | | | |
| Discount% : EV/EBITDA | 10.0% | 12.00 | Average market rates for discount and exit multiples assumed | | | | | | | |
| The Cash Flows (A\$'000) | | | | | | | | | | |
| Year | Dilution | N/A | Revenue | Gross Margin | % | EBITDA | % | Tax | Capex | FCFF |
| 1 | 158,769 | - | 108,661 | 61,272 | 56.4% | 2,844 | 2.6% | - | 23,245 | 20,401 |
| 2 | 160,357 | - | 148,565 | 87,325 | 58.8% | 24,524 | 16.5% | - | 27,479 | 2,954 |
| 3 | 161,960 | - | 199,672 | 122,583 | 61.4% | 49,670 | 24.9% | - | 31,674 | 17,995 |
| 4 | 163,580 | - | 263,283 | 169,046 | 64.2% | 80,812 | 30.7% | - | 35,481 | 45,331 |
| 5 | 165,216 | - | 339,946 | 226,219 | 66.5% | 121,079 | 35.6% | - | 38,486 | 82,593 |
| 6 | 166,868 | - | 428,509 | 293,868 | 68.6% | 178,892 | 41.7% | 39,511 | 40,013 | 99,367 |
| 7 | 168,537 | - | 523,523 | 369,728 | 70.6% | 247,654 | 47.3% | 57,657 | 38,635 | 151,362 |
| 8 | 170,222 | - | 617,670 | 445,255 | 72.1% | 316,596 | 51.3% | 76,327 | 34,454 | 205,815 |
| 9 | 171,924 | - | 702,167 | 516,968 | 73.6% | 386,233 | 55.0% | 95,846 | 27,831 | 262,556 |
| 10 | 173,643 | - | 772,444 | 580,923 | 75.2% | 452,725 | 58.6% | 115,248 | 20,832 | 316,644 |
| Terminal | 175,380 | - | 822,281 | 625,186 | 76.0% | 497,331 | 60.5% | 129,147 | 13,296 | 354,888 |
| The Value (A\$'000) | | | | | | | | | | |
| Terminal Value (Diluted) | | 5,328,861 | | Cashflows discounted for dilution | | | | | | |
| PV (Terminal Value) | | 1,887,344 | | | | | | | | |
| PV (FCFF of next 10yrs) | | 502,385 | | | | | | | | |
| Value of Operating Asset | | 2,389,729 | | | | | | | | |
| Adjustment for Distress | | - | | Failure Probability = 0%, ready access to capital | | | | | | |
| Adjustment for Future Options | | 597,432 | | Option Case = 25%, The Bevan Factor - innovation and acquisition value add | | | | | | |
| - Debt & Minority Interest | | 15,757 | | | | | | | | |
| + Cash & Equivalents | | 136,312 | | | | | | | | |
| Value of Equity | | 3,107,717 | | | | | | | | |
| Value per share (Base Currency) | | \$ 19.85 | | Insider Holding%: 16.7%; 11p Rem Report; GlassDoor: Rec 79%, 4.2 Stars(4 Rev) | | | | | | |
| FX Rate | | 1.000 | | Current Price | % | | | | | |
| Value per share (A\$) | | \$ 19.85 | | \$ 16.56 | 20% | Down from recent 52wk high of \$18.55 due to sell recommendation | | | | |
| Source: Methodology and Format are based on that done by Aswath Damodran (see: aswathdamodaran.blogspot.com) | | | | | | | | | | |
| Disclaimer: Valuation is not to be relied on as financial advice of any sort and is prepared for personal use of the author only. | | | | | | | | | | |