EQUINIX– NASDAQ: EQIX

Equity Report- Rougemont Capital - Valentino Bianco

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Building the core of tomorrow

Data centres will drive tomorrows future as the technologies they provide infrastructure for will continue to shape our future. The firm provides AI infrastructure solutions and Network Edge, digital services solutions. Data generation is forecasted to grow at 23.1% from 2024-2025, with global data volume projected to double every three to four years. Equinix is uniquely positioned to dominate this market given that it currently operates the worlds largest network of interconnected centres in the world, with over 260 centres across 5 continents. With headwinds from AI and strong barriers to entry protecting their dominance, Equinix provides a strong investment opportunity with consistent cash flows and significant upside potential.

Fundamental Analysis:

Equinix remains net cash negative as the firm is leveraged for its infrastructure and large expansions. This may seem as if the firm is not liquid enough to deal with shocks or to invest in R&D but that is not the case. No major US/European Data-centre firm is net cash positive, and this demonstrates the large capital intensive commitment needed to enter the industry. These capital requirements act as strong barriers to entry which protect the firms market dominance. Net Debt/EBITDA remains at around 4.0, which is moderate compared to the industry range of 3.0-6.0; demonstrating a strategic balance between growth investment and financial prudence, especially since the firm benefits from strong, recurring revenues.

Their data-centres remain consistently at around 80% cabinet-utilisation rate, which is on-par with competitors but at a much higher scale – showing how capacity growth does not sacrifice capacity quality, and thus a consistent relationship between Capex and revenue. Equinix has 56 centres in AMER and 83 in Europe, which account for 44.2% and 34.7% of revenues respectively. The firm has the biggest network of centres in Europe across all competitors, putting it in a perfect position for European expansion, which is projected to grow, given energy demand is set to more than triple by 2030, and significant headwinds from AI, cloud computing and edge technologies providing significant future cash flows for equinix. Cash conversion remains strong, with a cash conversion ratio of 0.97, suggesting strong quality of earnings, working capital efficiency and strong flexibility. It also further reassures the firms ability to hold its' debt positions.

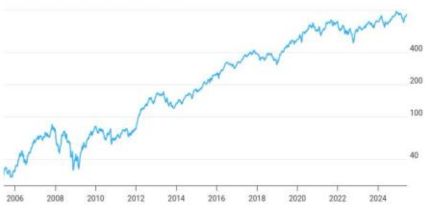
Valuation:

IRR at price = 774.08					
WACC	Exit EBITDA multiple (x)				
	18.5	19.5	20.5	21.5	22.5
5.81%	20.44%	28.63%	36.81%	45.00%	53.18%
6.81%	11.83%	19.57%	27.30%	35.04%	42.78%
7.81%	3.77%	11.08%	18.40%	25.71%	33.03%
8.81%	-3.79%	3.13%	10.06%	16.98%	23.90%
9.81%	-10.87%	-4.32%	2.23%	8.78%	15.34%

Following an Exit EBITDA multiple method, DCF modelling shows that by 2030 EQIX can provide an appreciation of 17.33% in the base case, following strong earnings growth and long term maturity in D&A, COGS, etc. The sensitivity table above demonstrates how this profit opportunity shifts with multiples and WACC values. All assumptions are conservative, and can be found along with the wider DCF model in the longer form equity report.

Catalysts:

- AI driven surge in demand, which they are perfectly positioned for with their xScale infrastructure, catering to hyperscale clients.
- Global expansion: Large growth in Southeast Asia and continued dominance in Europe Strategic investment into Malaysia, Indonesia and Philippines provide huge growth opportunities, with Malaysia alone on track to have a 25.5% GDP contribution from the digital economy by the end of 2025.
- Global expansion II: Equinix plans to double its number of data centres, providing huge growth opportunities in the long run, despite potential short run profitability slowdowns (see risk factors).



EQIX

Share details

Ticker:	EQIX
Listing:	NASDAQ
Shares in Issue:	96.49m

Business description

Equinix operates global data centres that connect businesses to partners, customers, and cloud providers, enabling secure and fast digital infrastructure for cloud and network services.

Bull Points

- Strong demand from AI
- Solid fundamentals
- World leading market position.

Risk Factors

- Regulatory shifts: affecting energy sourcing, but are only short term and cyclical in their political nature.
- Geopolitical risk: Currency fluctuations may affect the firm as it operates globally, especially devaluations in the dollar.
- Competition: Will AI be benefited most by a few firms who harness and scale it or will it be democratised? For the latter, third party providers may suffer as controlling firms build their own centres, but for the latter third party providers like EQIX will thrive.
- Financing risk: EQIX fell around 16% over the course of a week after announcing long term expansion plans which could hurt profitability. Risk here lies in that aggressive future expansion has to be met by sufficient demand to justify debt onboarding.