



Small Cap Research

MarketAxess Holdings: A Financial Worth an Investment on Bond/CDS Trading Resurgence

Details: MarketAxess Holdings (MKTX), \$24.06, Financial - Investment Brokerage, \$912M Market Cap

Recommendation: Buy at \$23 with a \$28 Target, Add at \$20.50 on Weakness

Thesis: MarketAxess is a \$912M Investment Brokerage trading at a fair valuation, and excelling compared to peers with growth and margins, and is relatively unknown, and thus under-owned. There are not a lot of Financial stocks worth owning in my view, but this one is a growth name and business conditions are improving. It even yields a 1.5% dividend with room for raises. Recent monthly volume data shows that trading is running at 35% higher than last year at the same time, which will lead to more profits for MKTX.

Overview: MarketAxess operates an electronic trading platform for corporate bonds and other fixed-income instruments, and is also a provider of market data and other execution services. The platform has 81 broker-dealer clients and more than 800 Institutional Firms.

Fundamentals: MarketAxess shares trade 26.44X earnings, 20.4X forward earnings, 1.76 PEG, 5.89X Sales, 3.24X book and 18.66X Free Cash Flow. The metrics make it appear expensive compared to the overall market, and especially to the Financial sector, but MKTX is growing sales 25% quarterly and EPS at a 60.88% Q/Q, which cannot be said for most, if any, other financials. The Company operates with 37.1% operating margins, and the ROA of 12.3%, ROE of 13.16%, and ROI of 13.3% are also indicative of strong management. MarketAxess has posted an EPS beat in 3 of the last 4 quarters, and FY11 and FY12 EPS estimates have been raised more than 5% in the past 90 days. The Company recently launched electronic trading for preferred stocks and Asset-Backed Securities, and is actively pushing barriers into new markets to drive future growth, and higher trading volumes. The Company raised its dividend from \$0.02 to \$0.09 in February.

Analyst Coverage: According to Yahoo Finance there are 5 Brokers covering MKTX and the average price target is \$26.80, with a high of \$35. The most recent coverage I was able to track down was KBW raised its target to \$25 in April.

Short Interest, Ownership and Options Analysis: MarketAxess has 2.87% of the float short, or 6.77 days to cover, short interest rising 50% since February 1st. Insider Trends are poor also with more than \$20M sold in stock in February and May, the President and Director selling shares. A 13D transaction with TCV VI lowering its stake to 5.6% from 8.6% in May was

one of the large trades. Insiders own just 4% of shares outstanding, while Institutions own 97.38%. Top holders include CCMP Capital with a 15.34% stake, Burgundy Asset Mgmt. with 9.69%, Janus Capital at 7.65%, Kornitzer Capital with 4.62%, and Blackrock with 4.62%. It is among the top holdings in the Buffalo Small Cap Fund, which has outperformed the Russell consistently. Options are extremely thinly traded, and there is open interest of 11 in the November \$25 calls.

Technical: MarketAxess shares broke out past a descending trend line today, while MACD and RSI continue to climb with bullish momentum. Shares have found solid support at \$21, which is now where the rising 200 day EMA comes into play. ADX had a bullish crossover on June 13th and shares are nearing a trending stage, and above \$25 could turn into a momentum stock. A short term pullback to \$22.50 would be healthy at this point, but shares are not overbought at this stage, and could see further short term upside.

