



Why TMX Group Stock Fell 3% Tuesday

Description

TMX Group ([TSX:X](#)) stock plunged by approximately 3% Tuesday after the company reported its [third-quarter results](#). TMX missed estimates for the third quarter, despite posting double-digit profit and revenue growth. The company saw increased trading activity in the quarter.



The Canadian financial services company operates the Toronto Stock Exchange (TSX).

Revenue & earnings increased

Revenue for Q3 2021 came in at \$231.3 million — an increase of 11% from the revenue of \$207.6 million reported in Q3 2020. The rise in revenue is due to increases in revenue from Capital Formation, Derivatives Trading and Clearing, Global Solutions, Insights and Analytics, CDS and Other, which

was partially offset by a decrease in Equities and Fixed Income Trading revenue.

Revenue included approximately \$5.1 million related to AST Canada, which was acquired on August 12, 2021, and approximately \$0.9 million related to Tradesignal, which was acquired on June 1, 2021. Revenue excluding AST Canada and Tradesignal increased 9% year over year.

AST is a leading provider of transfer agent, business trust, and other related services. Tradesignal is a provider of rules-based energy analysis and trading solutions.

Operating expenses in Q3 2021 were \$121.9 million, up 14%, from \$107.2 million in Q3 2020.

Meanwhile, the company reported a profit of \$76.9 million, or \$1.36 per diluted share, in the third quarter, up 10% from \$70 million, or \$1.23 per share, in the same quarter a year ago.

On an adjusted basis, TMX earned \$88.7 million, or \$1.57 per diluted share, compared with \$80 million, or \$1.40 per diluted share, in the third quarter of 2020. The increase in adjusted earnings is in large part due to increased revenues, partially offset by higher operating expenses.

Analysts expected TMX to report \$1.59 per diluted share in adjusted earnings on \$232 million in revenue, according to financial data firm Refinitiv.

Cash flows from operating activities were \$117.7 million, up 16% from \$101.7 million in Q3 2020.

Positive momentum in capital markets

TMX Group CEO John McKenzie said the following:

“We are extremely pleased with TMX’s strong performance in the quarter, as we achieved double-digit top and bottom line growth with contributions from across the enterprise, including capital formation, derivatives and Trayport. Along with sustained, positive momentum in our capital markets ecosystem, TMX also marked significant milestones in our initiatives during the third quarter, designed to bolster our ability to serve new and existing clients and to expand the global reach of Canada’s markets into the future.

In August, we completed the acquisition of AST Canada to augment TSX Trust’s service offering, and in September, Montreal Exchange launched derivatives trading on Asia Pacific time.”

David Arnold, TMX CFO, said that TMX continued to see strong capital raising activity and growth in its data and analytics business as well as a recovery in its derivative trading volumes in Q3 2021.

In October, TMX Group launched the new TSX Market on Close (MOC), a mechanism designed to allow investors to source liquidity and participate in trades at the closing price. The new TSX MOC model introduces three high-level changes, each designed to address issues of transparency, alignment in global markets and consistency of execution.

TMX Group pays a quarterly dividend of \$0.77 per share. This gives a [dividend yield](#) of 2% at the current price.

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