

Infratil

OUTPERFORM

Talked the Talk, Now to Walk the Walk

Infratil's (IFT) investor day showcased its high growth business, CDC and its most recent acquisition, Vodafone. The CDC story is now familiar and it again highlighted the undoubted potential in the business. Vodafone is more of a turnaround story, and whilst there is clearly upside opportunity the 30%+ EBITDA margin target will require excellent execution as well as no material negative surprises. Our net asset value assessment (\$5.58), target price (\$4.83) and rating (OUTPERFORM) are unchanged.

Canberra Data Centres (CDC) continues to grow — quickly

CDC provided a story similar to IFT's April investor day (and earlier investor days). The growth opportunity remains in front of CDC. The data centre market is still growing quickly with no indication of price pressure or a material slowing of growth.

From an earnings perspective CDC provided a small guidance increase, adding +A\$10m to its FY20 EBITDA range, so the range is now A\$110m to A\$120m (our forecast is A\$110m). Run rate EBITDA as at 31 March 2020, also added +\$10m to the top of the range to A\$135m to A\$145m. Whilst there is no formal FY21 guidance, indications are FY21 EBITDA growth will be at least +20% and could be as high as +50% if sign-up rates are strong. We currently forecast FY21 EBITDA run rate growth of +30%, as the under construction Sydney data centre fills up.

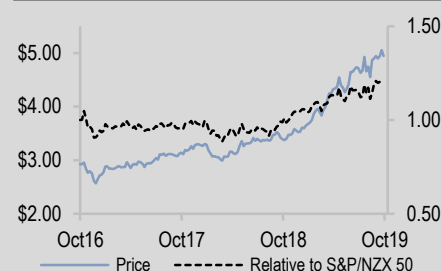
Vodafone's (VOD) work is just beginning

VOD provided an aspiration to grow its EBITDA margin from the current <23% to "low-30s%", which implies EBITDA growth of ~+\$200m. **IF** VOD can achieve that, IFT's valuation upside is substantial (at least +\$400m NAV, ~+60cps — we assume ~26% margins in four years). Areas where VOD expects to generate earnings growth are: cost out (VOD is aiming to reduce costs -20%, its main source of near-term growth); moving to a single IT platform (currently VOD uses four legacy platforms from various acquisitions); 5G leadership (VOD will be first to market in December); fixed wireless opportunity reducing input costs (VOD is looking to grow from ~10% to between 20% and 30%); and nominal revenue improvement (this also depends on the market).

Execution is key. Whilst there are obvious improvements that can be made (e.g. single IT platform, improving customer service), it will not be easy. Monetising 5G investment is not a given and will require market discipline. In addition, we note that VOD ARPU's are above those of Spark, a premium which will have to be retained.

NZX Code	IFT
Share price	NZ\$4.95
Target price	NZ\$4.83
Risk rating	Medium
Issued shares	659.3m
Market cap	NZ\$3,264m
Average daily turnover	570.4k (NZ\$2,452k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	n/a	n/a	n/a	n/a
EPS* (NZc)	n/a	n/a	n/a	n/a
EPS growth* (%)	n/a	n/a	n/a	n/a
DPS (NZc)	17.3	17.3	17.3	17.3
Imputation (%)	51	65	80	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	n/a	n/a	n/a	n/a
EV/EBIT	n/a	n/a	n/a	n/a
PE	n/a	n/a	n/a	n/a
Price / NTA	n/a	n/a	n/a	n/a
Cash dividend yield (%)	3.5	3.5	3.5	3.5
Gross dividend yield (%)	4.2	4.4	4.6	4.8

*Historic and forecast numbers based on underlying profits

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Investment View

Our rating is OUTPERFORM. IFT has a solid core of investments that will perform well in a low interest rate environment. Near-term valuation upside comes from CDC growth and Vodafone operational improvements with other core portfolio investments providing good downside protection.

Infratil (IFT)		Priced as at 16 Oct 2019: NZ\$4.95					March year end				
Forsyth Barr valuation						Valuation Ratios					
Valuation methodology						NAV less -20% discount					
12-month target price (NZ\$)*						4.83					
Expected share price return						-2.4%					
Net dividend yield						3.5%					
Estimated 12-month return						1.1%					
Key WACC assumptions						NAV valuation summary (NZ\$m)					
Risk free rate						n/a					
Equity beta						n/a					
WACC						n/a					
Terminal growth						n/a					
Sales revenue						n/a					
Normalised EBITDA						n/a					
Depreciation and amortisation						n/a					
Normalised EBIT						n/a					
Net interest						n/a					
Associate income						n/a					
Tax						n/a					
Minority interests						n/a					
Normalised NPAT						n/a					
Abnormals/other						n/a					
Reported NPAT						n/a					
Normalised EPS (cps)						n/a					
DPS (cps)						16.8					
Profit and Loss Account (NZ\$m)						2018A 2019A 2020E 2021E 2022E					
Sales revenue						n/a					
Normalised EBITDA						n/a					
Depreciation and amortisation						n/a					
Normalised EBIT						n/a					
Net interest						n/a					
Associate income						n/a					
Tax						n/a					
Minority interests						n/a					
Normalised NPAT						n/a					
Abnormals/other						n/a					
Reported NPAT						n/a					
Normalised EPS (cps)						n/a					
DPS (cps)						16.8					
NAV Calculation						2018A 2019A 2020E 2021E 2022E					
EV/EBITDA (x)						n/a					
EV/EBIT (x)						n/a					
PE (x)						n/a					
Price/NTA (x)						n/a					
Free cash flow yield (%)						n/a					
Net dividend yield (%)						3.4					
Gross dividend yield (%)						4.7					
Imputation (%)						100					
Pay-out ratio (%)						n/a					
Capital Structure						2018A 2019A 2020E 2021E 2022E					
Interest cover EBIT (x)						n/a					
Interest cover EBITDA (x)						n/a					
Net debt/ND+E (%)						n/a					
Net debt/EBITDA (x)						n/a					
Key Ratios						2018A 2019A 2020E 2021E 2022E					
Return on assets (%)						n/a					
Return on equity (%)						n/a					
Return on funds employed (%)						n/a					
EBITDA margin (%)						n/a					
EBIT margin (%)						n/a					
Capex to sales (%)						n/a					
Capex to depreciation (%)						n/a					
NAV Calculation						2018A 2019A 2020E 2021E 2022E					
Revenue (%)						n/a					
EBITDA (%)						n/a					
EBIT (%)						n/a					
Normalised NPAT (%)						n/a					
Normalised EPS (%)						n/a					
DPS (%)						6.3					
Cash Flow (NZ\$m)						2018A 2019A 2020E 2021E 2022E					
EBITDA						n/a					
Working capital change						n/a					
Interest & tax paid						n/a					
Other						n/a					
Operating cash flow						n/a					
Capital expenditure						n/a					
(Acquisitions)/divestments						n/a					
Other						n/a					
Funding available/(required)						n/a					
Dividends paid						n/a					
Equity raised/(returned)						n/a					
Increase/(decrease) in net debt						n/a					
Balance Sheet (NZ\$m)						2018A 2019A 2020E 2021E 2022E					
Working capital						n/a					
Fixed assets						n/a					
Intangibles						n/a					
Other assets						n/a					
Total funds employed						n/a					
Net debt/(cash)						n/a					
Other non current liabilities						n/a					
Shareholder's funds						n/a					
Minority interests						n/a					
Total funding sources						n/a					
Investment						% Owned Value \$m % of IFT Value/share					
Trustpower						50.5 1,250 21.8 1.90					
Vodafone						49.9 1,110 19.3 1.68					
Canberra Data Centres						48.0 1,128 19.7 1.71					
Wellington Intl Airport						66.0 900 15.7 1.37					
Tilt Renewables						65.4 813 14.2 1.23					
RetireAustralia						50.0 297 5.2 0.45					
Longroad Energy						40.0 130 2.3 0.20					
Property/Other						100.0 110 1.9 0.17					
Total Assets						5,738 8.70					
Less : Bank debt						(541) (0.82)					
Less : Present value of mgmt contract						(380) (0.58)					
Less : Infrastructure & Perp Bonds						(1,136) (1.72)					
Net Assets						3,681 5.58					

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Investment summary

Our rating is **OUTPERFORM**. Infratil (IFT) has a solid core of investments that will perform well in a low interest rate environment. Near-term operational upside comes from CDC and Vodafone with other core portfolio investments providing good downside protection.

Business quality

- **Chasing low risk, high growth assets:** IFT's strategy is to invest in infrastructure-like assets that exhibit strong underlying demand. Recent investments include Vodafone (mobile data), CDC (data centres), and Longroad Energy (renewable electricity generation projects).
- **Strong track record over the past decade:** IFT's recent track record buying and selling assets is strong, having crystallised significant gains with Z Energy, Lumo Energy and ANU Student Accommodation. In addition, new investment CDC is performing well.
- **Diversified risk:** Key sectors in IFT's asset portfolio are data/telco (~41%), renewable electricity (~37%) and airports (~20%). Its largest assets are CDC, Trustpower and Vodafone, each at ~20% of its portfolio. Assets are also diversified across New Zealand, Australia and North America.

Earnings and cash flow outlook

- **Growth coming from new investments:** Most of IFT's earnings growth is expected to come from its newer investments: Vodafone NZ, CDC, Longroad Energy, and Tilt Renewables developing new wind farms.

Financial structure

- **Limited spare balance sheet capacity:** Recent investments mean IFT has limited spare balance sheet capacity. IFT is selling some low growth/low return assets to provide room for higher growth/ return options.
- **Strong historic dividend growth:** IFT has increased dividends +13% p.a. over the past eight years. Future growth is expected to be tempered as IFT's portfolio shifts towards high growth but more capital hungry assets.

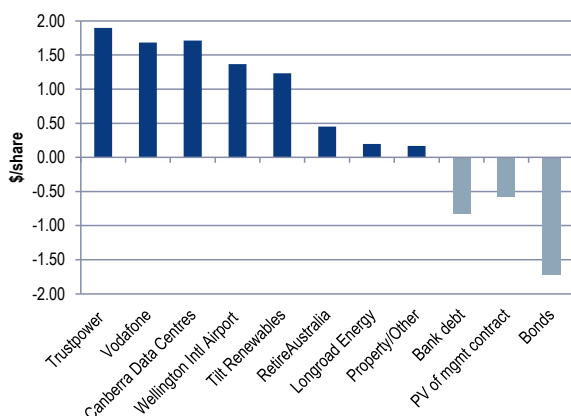
Risk factors

- **Valuation transparency:** IFT favours investments in unlisted assets. It can be difficult to get a clear view on the value of the unlisted assets and this is a factor in IFT trading at a discount to NAV. An investment in IFT is backing the management team to deliver results similar to its track record.
- **Governance:** IFT manager, Morrison & Co, has several investment mandates outside IFT, potentially resulting in competition for investment opportunities. Governance is important to ensure IFT is not disadvantaged.

Company description

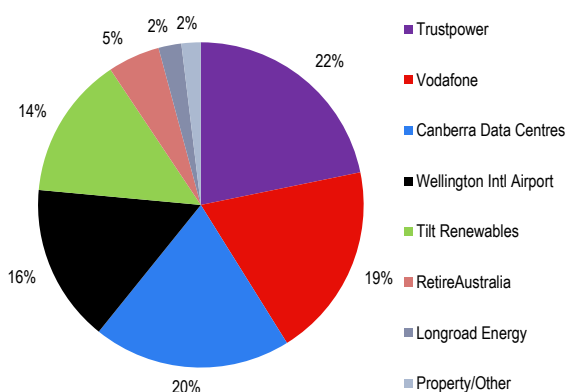
IFT is an investment company that invests in assets of a utility/infrastructure nature. Key investments are Trustpower (51%), Tilt Renewables (65%), Wellington International Airport (66%), Vodafone NZ (50%) Canberra Data Centres (48%), RetireAustralia (50%), and Longroad Energy (40%). The largest five investments equate to ~91% of IFT's NAV. IFT prefers to invest in assets where it can have significant influence or control of the Board.

Figure 1. Net Asset Value (NAV) assessment



Source: Forsyth Barr analysis

Figure 2. NAV breakdown



Source: Forsyth Barr analysis

Figure 3. Substantial Shareholders

Shareholder	Latest Holding
ACC	6.1%

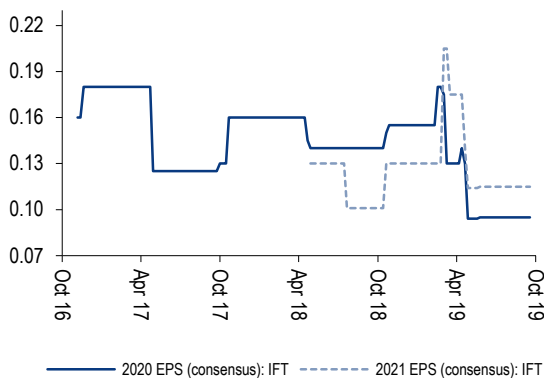
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 4. International Compcos

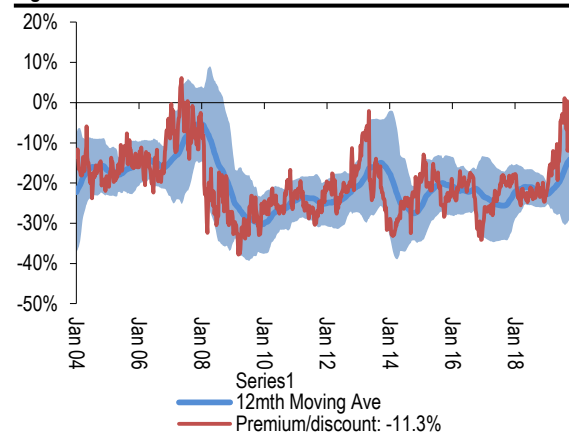
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	
Infratil	IFT NZ	NZ\$4.95	NZ\$3,264	n/a	n/a	n/a	n/a	n/a	n/a	3.5%
Compcos Average:				n/a	n/a	n/a	n/a	n/a	n/a	n/a
IFT Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcos metrics re-weighted to reflect headline (IFT) companies fiscal year end

Figure 5. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 6. Historic discount to NAV


Source: Bloomberg, Forsyth Barr analysis

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