FORSYTH BARR

# Infratil

**OUTPERFORM**

## Gearing Up for Cash Returns — 1H20 Result

**Infratil's (IFT) 1H20 result contained no surprises, although there was the usual mix of stronger and weaker performers. We maintain our positive view on IFT as it has near-term upside from the potential sale of Snowtown II at a good price and by FY22 its portfolio will be generating lots of cash. We have lifted our target price +13cps to $4.96.**

### What's changed?

- **Net Asset Value assessment:** Increased +12cps (+2.1%) to $5.71
- **Target Price:** Increased +13cps (+2.7%) to $4.96
- **Rating:** OUTPERFORM rating retained

### No surprises result

There were no surprises in the IFT 1H20 result. Given 60% of the business had already reported (Trustpower [TPW], Tilt Renewables [TLT], Wellington Airport) and the other 40% (CDC, Vodafone) was the focus of IFT's recent investor day, the lack of surprises is a good thing. CDC was again the stand out performer, growing EBITDAF +49% (slightly ahead of expectations). Wellington Airport and TPW were modest disappointments, with rising opex impacting both results.

### Dividends currently debt funded, but FY22 year cash outlook strong

The interim dividend of 6.25cps was the same as the pcp and expected. We calculate that most of the FY20 dividend will effectively be debt funded as IFT's businesses invest on growth opportunities. There is a high degree of certainty around the near-term earnings growth stories of TLT and CDC, and assuming Vodafone can execute, IFT will be in a very strong position to resume dividend growth in FY22.

### Near-term Snowtown II sale upside

Whilst execution of growth plans is the main focus for most of IFT's investments, there is also a sale process being run around TLT's Snowtown II wind farm. Recent wind farm transactions bode well for a positive outcome. Our TLT valuation assumes Snowtown II is worth ~A$700m and every +A$100m equates to 11cps for IFT. We also expect at least some of the sales proceeds to be returned to shareholders as TLT has limited capacity to reinvest quickly.

### Outlook unchanged, modest NAV changes

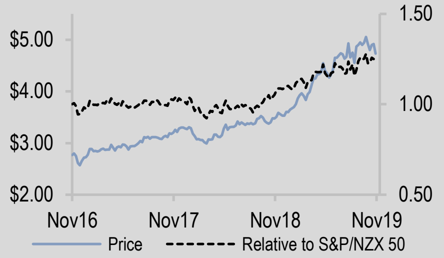
IFT's FY20 EBITDAF guidance is unchanged at $655m to $695m. We have lifted our NAV +12cps to $5.71 (which has flowed through into a +13cps increase in our target price). Some of the valuation increases are of low quality however, and are due to book value increases we have limited visibility over. The main decline is in our Wellington Airport valuation, with the 1H20 result disappointing and indications that the landing charge price reset will be flat ahead of a significant capex programme.

**Investment View**

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, Vodafone and the possible sale of Snowtown II, with other core portfolio investments providing good downside protection.

| NZX Code | IFT |
|---|---|
| Share price | NZ$4.73 |
| Target price | NZ$4.96 |
| Risk rating | Medium |
| Issued shares | 659.3m |
| Market cap | NZ$3,119m |
| Average daily turnover | 589.1k (NZ$2,579k) |

**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 | 18.3 |
| 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 (%) | 3.6 | 3.6 | 3.6 | 3.9 |
| Gross dividend yield (%) | 4.4 | 4.6 | 4.8 | 5.4 |

*Historic and forecast numbers based on underlying profits

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| Infratil (IFT) | | Priced as at 13 Nov 2019: NZ$4.73 | |
|---|---|---|---|
| **Forsyth Barr valuation** | | | |
| Valuation methodology | | | NAV less -20% discount |
| **12-month target price (NZ$)*** | **4.96** | **Spot valuations (NZ$)** | |
| Expected share price return | 4.9% | 1. NAV | 5.71 |
| Net dividend yield | 3.6% | 2. n/a | n/a |
| Estimated 12-month return | 8.5% | 3. n/a | n/a |
| **Key WACC assumptions** | | **NAV valuation summary (NZ$m)** | |
| Risk free rate | n/a | Total firm value | 5,779 |
| Equity beta | n/a | (Net debt)/cash | (1,711) |
| WACC | n/a | Value of equity | 4,068 |
| Terminal growth | n/a | Shares (m) | 659 |

| **Profit and Loss Account (NZ$m)** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Sales revenue | n/a | n/a | n/a | n/a | n/a |
| **Normalised EBITDA** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Depreciation and amortisation | n/a | n/a | n/a | n/a | n/a |
| **Normalised EBIT** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Net interest | n/a | n/a | n/a | n/a | n/a |
| Associate income | n/a | n/a | n/a | n/a | n/a |
| Tax | n/a | n/a | n/a | n/a | n/a |
| Minority interests | n/a | n/a | n/a | n/a | n/a |
| **Normalised NPAT** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Abnormals/other | n/a | n/a | n/a | n/a | n/a |
| **Reported NPAT** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Normalised EPS (cps) | n/a | n/a | n/a | n/a | n/a |
| DPS (cps) | 16.8 | 17.3 | 17.3 | 17.3 | 18.3 |

| **Growth Rates** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Revenue (%) | n/a | n/a | n/a | n/a | n/a |
| EBITDA (%) | n/a | n/a | n/a | n/a | n/a |
| EBIT (%) | n/a | n/a | n/a | n/a | n/a |
| Normalised NPAT (%) | n/a | n/a | n/a | n/a | n/a |
| Normalised EPS (%) | n/a | n/a | n/a | n/a | n/a |
| DPS (%) | 6.3 | 3.0 | 0.0 | 0.0 | 5.8 |

| **Cash Flow (NZ$m)** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| **EBITDA** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Working capital change | n/a | n/a | n/a | n/a | n/a |
| Interest & tax paid | n/a | n/a | n/a | n/a | n/a |
| Other | n/a | n/a | n/a | n/a | n/a |
| **Operating cash flow** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Capital expenditure | n/a | n/a | n/a | n/a | n/a |
| (Acquisitions)/divestments | n/a | n/a | n/a | n/a | n/a |
| Other | n/a | n/a | n/a | n/a | n/a |
| **Funding available/(required)** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Dividends paid | n/a | n/a | n/a | n/a | n/a |
| Equity raised/(returned) | n/a | n/a | n/a | n/a | n/a |
| **Increase/(decrease) in net debt** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |

| **Balance Sheet (NZ$m)** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Working capital | n/a | n/a | n/a | n/a | n/a |
| Fixed assets | n/a | n/a | n/a | n/a | n/a |
| Intangibles | n/a | n/a | n/a | n/a | n/a |
| Other assets | n/a | n/a | n/a | n/a | n/a |
| **Total funds employed** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| Net debt/(cash) | n/a | n/a | n/a | n/a | n/a |
| Other non current liabilities | n/a | n/a | n/a | n/a | n/a |
| Shareholder's funds | n/a | n/a | n/a | n/a | n/a |
| Minority interests | n/a | n/a | n/a | n/a | n/a |
| **Total funding sources** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |

March year end

| **Valuation Ratios** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| EV/EBITDA (x) | n/a | n/a | n/a | n/a | n/a |
| EV/EBIT (x) | n/a | n/a | n/a | n/a | n/a |
| PE (x) | n/a | n/a | n/a | n/a | n/a |
| Price/NTA (x) | n/a | n/a | n/a | n/a | n/a |
| Free cash flow yield (%) | n/a | n/a | n/a | n/a | n/a |
| Net dividend yield (%) | 3.5 | 3.6 | 3.6 | 3.6 | 3.9 |
| Gross dividend yield (%) | 4.9 | 4.4 | 4.6 | 4.8 | 5.4 |
| Imputation (%) | 100 | 51 | 65 | 80 | 100 |
| Pay-out ratio (%) | n/a | n/a | n/a | n/a | n/a |

| **Capital Structure** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Interest cover EBIT (x) | n/a | n/a | n/a | n/a | n/a |
| Interest cover EBITDA (x) | n/a | n/a | n/a | n/a | n/a |
| Net debt/ND+E (%) | n/a | n/a | n/a | n/a | n/a |
| Net debt/EBITDA (x) | n/a | n/a | n/a | n/a | n/a |

| **Key Ratios** | **2018A** | **2019A** | **2020E** | **2021E** | **2022E** |
|---|---|---|---|---|---|
| Return on assets (%) | n/a | n/a | n/a | n/a | n/a |
| Return on equity (%) | n/a | n/a | n/a | n/a | n/a |
| Return on funds employed (%) | n/a | n/a | n/a | n/a | n/a |
| EBITDA margin (%) | n/a | n/a | n/a | n/a | n/a |
| EBIT margin (%) | n/a | n/a | n/a | n/a | n/a |
| Capex to sales (%) | n/a | n/a | n/a | n/a | n/a |
| Capex to depreciation (%) | n/a | n/a | n/a | n/a | n/a |

**NAV Calculation**

| **Investment** | **% Owned** | **Value $m** | **% of IFT** | **Value/ share** |
|---|---|---|---|---|
| Trustpower | 50.5 | 1,213 | 20.7 | 1.84 |
| Vodafone | 49.9 | 1,110 | 18.9 | 1.68 |
| CDC Data Centres | 48.0 | 1,151 | 19.6 | 1.75 |
| Wellington Intl Airport | 66.0 | 825 | 14.1 | 1.25 |
| Tilt Renewables | 65.4 | 874 | 14.9 | 1.33 |
| RetireAustralia | 50.0 | 370 | 6.3 | 0.56 |
| Longroad Energy | 40.0 | 132 | 2.3 | 0.20 |
| Property/Other | 100.0 | 190 | 3.2 | 0.29 |
| **Total Assets** | | **5,866** | | **8.90** |
| Less : Bank debt | | (306) | | (0.46) |
| Less : Present value of mgmt contract | | (393) | | (0.60) |
| Less : Infrastructure & Perp Bonds | | (1,405) | | (2.13) |
| **Net Assets** | | **3,762** | | **5.71** |

Note: this assumes the successful sale of NZ Bus and Perth Energy and the successful acquisition of Vodafone NZ, none of which have been completed

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

# Things to think about

## Near-term dividends effectively debt funded

IFT's trend of rising dividends has been paused, as previously signalled. The 1H20 interim dividend of 6.25cps is the same as the pcp. Dividend growth has ceased because of the portfolio changes (acquisition of Vodafone NZ and the sale of ANU Accommodation, NZ Bus and Perth Energy all in 1H20) and high levels of growth capex going into most of the businesses.

In the short-term IFT is effectively borrowing to pay for the dividend. However, looking out two years, TLT will have completed its two wind farms, Vodafone should be delivering strong cash flows and CDC earnings will have grown ahead of its capex spend (assuming its growth cadence does not increase). Our analysis indicates IFT should be back in a position to lift dividends and we have increased our FY22 dividend forecast +1cps to 18.25cps.

**Figure 1. IFT parent cash flows**

| | FY20 $m | FY21 $m | FY22 $m | Comment |
|---|---|---|---|---|
| TPW dividend | 54 | 54 | 56 | Based on TPW dividend forecast |
| TLT dividend | 0 | 0 | 112 | We expect no dividends whilst wind farms are built. FY22 figure is 100% of estimated free cash flow |
| WIAL subvention payment | 44 | 45 | 46 | Modest growth from FY20 subvention payment |
| Vodafone | 12 | 43 | 67 | 100% of estimated free cash flow – we assume modest EBITDAF growth and falling capex |
| Longroad | 30 | 30 | 30 | Estimate of average cash flows back to IFT |
| RetireAustralia | 0 | 0 | 0 | Assume no returns from RetireAustralia in the near-term |
| CDC | 2 | 24 | 36 | Assumes ongoing growth capex is 50% debt funded, remainder is from operating flow |
| less Corporate costs/other | (50) | (40) | (42) | Includes FY20 management fee accrual |
| less net interest expense | (82) | (85) | (87) | Estimated interest payments on bonds and bank debt |
| **Parent company cash flow available for dividends** | **11** | **71** | **219** | Vodafone, TLT and CDC are the main drivers of cash generation |
| | | | | |
| **Cash flow per share (cps)** | **1.6** | **10.8** | **33.2** | |
| Forecast dividend (cps) | 17.25 | 17.25 | 18.25 | We assume a modest increase in FY22 as IFT resumes dividend growth |
| Headroom/(shortfall) | -91% | -37% | 82% | We estimate FY20 and FY21 dividends will have to be debt funded |

Source: Forsyth Barr analysis

## Snowtown II upside

The main near-term valuation upside within the IFT portfolio is the potential sale of Snowtown II. Recent wind farm sales in Australia indicated the market is buoyant at present, aided by the low interest rate environment (notwithstanding the Reserve Bank's decision not to cut interest rates).

We estimate that for every A$100m Snowtown II sells for above ~A$700m, that will add ~+11cps to IFT's value. Recent transactions suggest a price above A$1b is achievable. The market can expect an update before the end of the calendar year.

It appears likely that some, if not most, of any cash proceeds will be returned to shareholders. The only reason TLT is likely to keep the cash is if it has another project requiring funding that is better than other investment opportunities IFT has (or if IFT wants to degear). Given TLT is busy building two wind farms, we view it is unlikely that TLT will be ready to develop another material project in the next 12–18 months.

# 1H20 result review

**Figure 2. Summary operating performance**

| Divisional EBITDAF ($m) | 1H19 | 1H20 | % Chg | Comment |
|---|---|---|---|---|
| Trustpower | 130 | 107 | -17% | Soft result due to higher opex and lower hydro generation volumes |
| Tilt Renewables | 73 | 75 | 4% | Good result with higher wind generation volumes and firm prices |
| Wellington Airport | 50 | 50 | 2% | Softer than expected as WIAL lifts opex. Hotel and car park earnings uplift not visible |
| Perth Energy | 25 | 12 | -52% | Business sold in 1H20 |
| NZ Bus | 13 | 6 | -55% | Business sold in 1H20 |
| CDC | 18 | 26 | 49% | Strong growth, slightly ahead of expectations |
| Vodafone NZ | - | 39 | | Acquired in 1H20, two months of operations |
| RetireAustralia | 5 | 3 | -42% | Continued difficult trading conditions |
| ANU Student Accommodation | 6 | 1 | -91% | Business sold in 1H20 |
| Longroad Energy | 51 | 18 | | Pcp included significant gain. Earnings continue to be lumpy |
| Other (incl corp.overheads) | (43) | (31) | -28% | Lower performance fee accrual (-$16m lower than pcp) |
| **Operating EBITDAF** | **326** | **306** | **-6%** | |
| Depreciation & amortisation | (100) | (85) | -15% | Reduced vs. pcp following asset sales |
| **EBIT** | **227** | **222** | **-2%** | |
| Net interest expense | (73) | (88) | 20% | Increase due to higher group debt |
| Gain/(loss) on derivatives | 12 | (17) | | |
| Other adjustments | (3) | 15 | | |
| Net realisations, revals | (1) | 7 | | |
| **Pre-Tax Profit** | **161** | **139** | **-14%** | |
| Tax expense | (55) | (50) | -9% | |
| **NPAT from continuing operations** | **106** | **88** | **-17%** | |
| Minority interests | (48) | (32) | -33% | |
| **Net surplus attributable to s/holders** | **59** | **56** | **-4%** | |
| | | | | |
| Dividend (cps) | 6.25 | 6.25 | 0% | Flat on the pcp as expected |

Source: IFT, Forsyth Barr analysis

**Key points:**

- The strong 1H20 performers were CDC and TLT. Wellington Airport was up slightly on the pcp, but less than expected given the hotel and car park operations had their first full half of operations.
- TPW had a soft 1H20 (as previously reported) due to elevated costs and lower hydro generation.
- Vodafone NZ earnings are for two months (August and September). A simple extrapolation points to FY20 EBITDAF of ~$470m, within the $460m to $490m guidance range. IFT reiterated that the bottom end of the FY20 guidance range is the likely FY20 outcome and indicated that increased opex investment will impact on earnings in 2H20.
- Longroad Energy had a solid half, but is down on the pcp. Longroad earnings are lumpy in nature and depend on when projects are sold and development margins booked. More is expected in 2H20.
- Businesses sold during 1H20 were Perth Energy, NZ Bus, ANU Student Accommodation and Snapper.
- The 1H20 performance fee accrual of $12.8m relates to the international businesses (CDC, TLT, Longroad), but is well down on the pcp accrual of $29.4m. We suspect most of the upside comes from the lower interest rate environment now, vs. the interest prevailing at 31 March 2019.
- Following the acquisition of Vodafone, IFT parent debt is now $1,711m. On a look through basis, we calculate IFT's share of debt is above $3.7b. Whilst debt levels are elevated at present, we expect group debt to decline over the next few years. In addition, the earnings of the main five investments are defensive in nature, with a high proportion of TLT and CDC earnings backed by long-term contracts.

- The interim dividend is 6.25cps (partially imputed to 61%), flat on the pcp and consistent with expectations. IFT is reactivating its dividend reinvestment plan and IFT has reiterated FY20 dividend guidance of 17.25cps (i.e. the same as FY19).

# FY20 Outlook

There has been no change to FY20 EBITDAF guidance, which remains $655m to $695m for the group. TLT's modest guidance upgrade at its 1H20 result has been offset by the modest TPW downgrade. We estimate the group EBITDAF guidance breakdown below. Our point estimates vary, but total to $677m, just above the mid-point of IFT's guidance range.

**Figure 3. Estimated FY20 EBITDAF guidance breakdown and FB point estimate**

| | Estimated guidance breakdown FY20 Low $m | Estimated guidance breakdown FY20 High $m | FB point estimate FY20 $m | Comment |
|---|---|---|---|---|
| TPW | 200 | 215 | 203 | Range per TPW guidance |
| TLT | 137 | 143 | 146 | Range per TLT guidance (converted to NZD) |
| WIAL | 100 | 105 | 102 | Weaker than expected 1H lower the range ~-$5m |
| Vodafone NZ | 153 | 163 | 154 | Equates to 8 months of $460m to $490m guidance range |
| RA | 10 | 15 | 12 | FB estimate |
| CDC | 57 | 62 | 62 | We expect CDC to hit the top of the guidance range following strong 1H |
| Longroad | 30 | 40 | 35 | FB estimate |
| Other | (40) | (35) | (37) | Excludes the $13m performance fee accrual |
| **EBITDAF** | **647** | **708** | **677** | |
| **IFT Guidance** | **655** | **695** | | |

Source: IFT, Forsyth Barr analysis

# Net asset value (NAV) changes

We have increased our NAV assessment +12cps to $5.71. There have been several modest changes to our NAV. The biggest changes and the reasons for them are:

- Wellington Airport down -8% (-$75m) to $825m. The 1H20 result included more opex than expected and indicates new landings charges are likely to be similar to the current charges despite a significant capex programme in front of it.
- RetireAustralia up +24% (+$71m) to $370m. IFT invested a further $61m of equity into RA, with most of that being used to repay RA corporate debt. It is offset by an increase in IFT debt levels.
- Other up +72% (+$80m) to $190m. Most of the increase comes within Infratil Infrastructure Property, which received a further +$18m to fund Wynard construction and benefited from a +$25m revaluation gain following the sale of NZ Bus.

**Figure 4. Summary NAV changes**

| | Old $m | New $m | Change $m | Old $/share | New $/share | Change $/share | % chg | Comment / valuation basis |
|---|---|---|---|---|---|---|---|---|
| Trustpower | 1,250 | 1,213 | (37) | $1.90 | $1.84 | -$0.06 | -3% | Downgraded following 1H20 result |
| Vodafone NZ | 1,110 | 1,110 | 0 | $1.68 | $1.68 | $0.00 | 0% | No change – based on DCF and market multiple valuation |
| CDC Data Centres | 1,128 | 1,151 | 23 | $1.71 | $1.75 | $0.04 | 2% | Better than expected 1H20 result - DCF & multiple valuation |
| Wellington Airport | 900 | 825 | (75) | $1.37 | $1.25 | -$0.11 | -8% | Weaker than expected 1H20 result - DCF & multiple valuation |
| Tilt Renewables | 813 | 874 | 61 | $1.23 | $1.33 | $0.09 | 8% | Upgraded following 1H20 result |
| RetireAustralia | 297 | 370 | 73 | $0.45 | $0.56 | $0.11 | 25% | IFT book value – IFT invested $61m of equity in 1H20 |
| Longroad Energy | 130 | 132 | 2 | $0.20 | $0.20 | $0.00 | 2% | IFT valuation as at 31 March |
| Other | 110 | 190 | 80 | $0.17 | $0.29 | $0.12 | 72% | IFT book value – increased equity investment and revaluation |
| **Total Assets** | **5,738** | **5,866** | **128** | **$8.70** | **$8.90** | **$0.19** | 2% | |
| Less PV of corporate costs | (380) | (393) | (13) | -$0.58 | -$0.60 | -$0.02 | 3% | Added performance fee accrual |
| Less net debt | (1,677) | (1,711) | (34) | -$2.54 | -$2.60 | -$0.05 | 2% | Adjusted to reported net debt |
| **Net Asset Value** | **3,681** | **3,762** | **81** | **$5.58** | **$5.71** | **$0.12** | 2% | |

Source: Forsyth Barr analysis

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, Vodafone and the possible sale of Snowtown II, 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 crystalised 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.

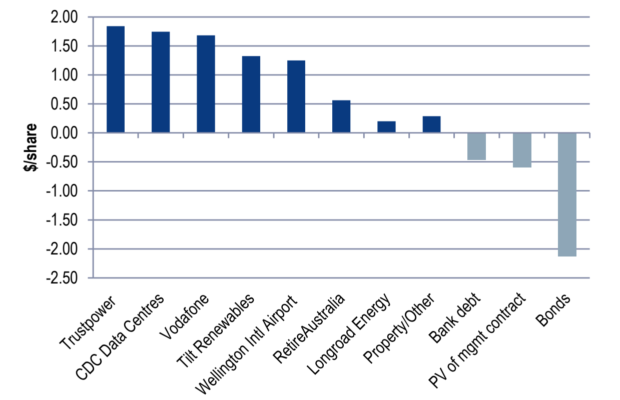
### Risk factors

- **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**

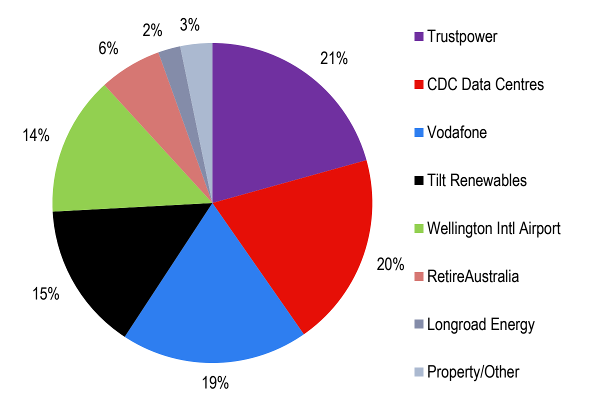
IFT is an investment company that invests in assets of a utility/infrastructure nature. Key investments are Trustpower (51%), Tilt Renewables (65%), Wellington International Airport (66%), Perth Energy (82%), NZ Bus (100%), Canberra Data Centres (48%), RetireAustralia (50%), and Longroad Energy (40%). It is also in the process of acquiring 50% of Vodafone NZ. The largest investments are Trustpower and Wellington Airport which combined equate to ~44% of IFT's NAV. IFT prefers to invest in assets where it can have significant influence or control of the Board.

**Figure 5.Net Asset Value (NAV) assessment**




Source: Forsyth Barr analysis

**Figure 6. NAV breakdown**




Source: Forsyth Barr analysis

### Figure 7. Substantial Shareholders

| Shareholder | Latest Holding |
|---|---|
| ACC | 6.1% |

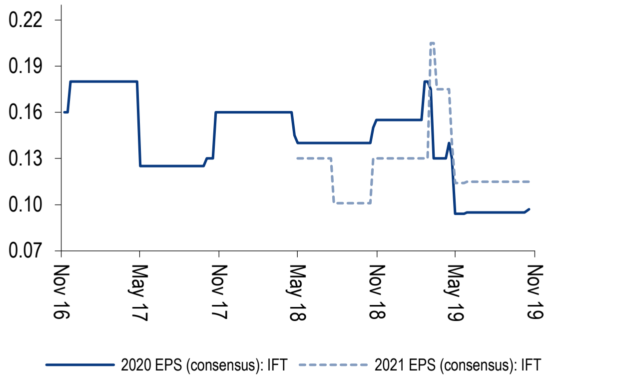
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

### Figure 8. International Compcos

| Company | Code | Price | Mkt Cap | PE | | EV/EBITDA | | EV/EBIT | | Cash D/Yld |
|---|---|---|---|---|---|---|---|---|---|---|
| *(metrics re-weighted to reflect IFT's balance date - March)* | | | (m) | 2020E | 2021E | 2020E | 2021E | 2020E | 2021E | 2021E |
| **Infratil** | **IFT NZ** | **NZ$4.73** | **NZ$3,119** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **3.6%** |
| | | | **Compco Average:** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| *EV = Current Market Cap + Actual Net Debt* | | | **IFT Relative:** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |

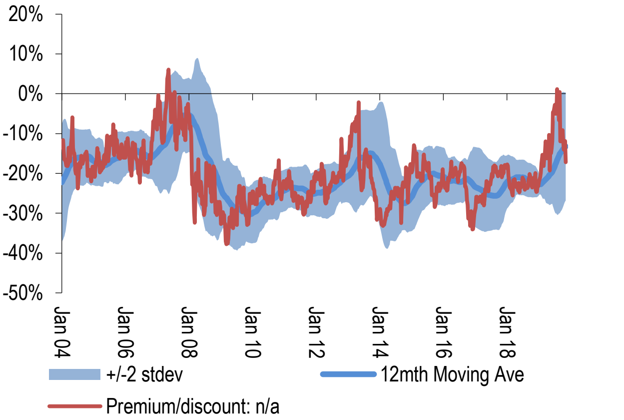
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (IFT) companies fiscal year end

### Figure 9. Consensus EPS Momentum




Source: Forsyth Barr analysis, Bloomberg

### Figure 10. Historic discount to NAV




Source: Forsyth Barr analysis