FORSYTH BARR

Infratil

OUTPERFORM

TLT Delivers Early Christmas Present

Tilt Renewables (TLT) has sold its Snowtown 2 wind farm for A$1,073m, materially higher than the value embedded within our Infratil (IFT) net asset value assessment, which has resulted in a +24cps lift in our target price to $5.20. In addition, we estimate there is ~A$565m (NZ$385m is IFT's share) of surplus capital in TLT following the completion of the ST2 sale, a large chunk of which we expect to be returned to IFT.

What's changed?

- **Net Asset Value:** Increased +24cps to $5.96
- **Target Price:** Increased +24cps to $5.20
- **Rating:** OUTPERFORM rating retained

Snowtown 2 sale results in TLT holding surplus capital

The sale of Snowtown 2 has come in materially higher than our embedded value of ~A$700m. That is the main driver of our NAV assessment increasing +24cps to $5.96 (partially offset by a stronger NZDAUD fx rate). In addition, we estimate that TLT will hold ~A$565m of surplus capital following the completion of the transaction (expected before the end of 2019). With IFT owning 65.4% of TLT, IFT could conceivably ask for its share, NZ$385m (58cps).

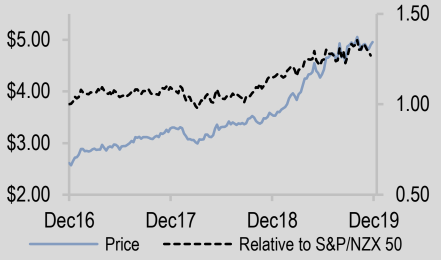
Following the 1H20 result, IFT's balance sheet looked a little stretched, but that will no longer be an issue.

Looking for an earlier increase in the dividend

We believe that the Snowtown 2 sale, and CDC undertaking an A$1.5b debt refinancing (which frees up significant capital in CDC and means it is unlikely to need further equity injections from IFT to fund developments) will allow IFT to increase dividends earlier than previously envisaged. We have lifted our FY20, FY21 & FY22 dividend forecasts +0.25cps, +1.00cps & +0.75cps to 17.50cps, 18.25cps & 19.00cps respectively.

NZX Code	IFT
Share price	NZ$4.96
Target price	NZ$5.20
Risk rating	Medium
Issued shares	659.3m
Market cap	NZ$3,267m
Average daily turnover	602.2k (NZ$2,704k)

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	17.5	18.3	19.0
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	3.7	3.8
Gross dividend yield (%)	4.2	4.4	4.8	5.3

*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 operational upside comes from CDC and Vodafone, with other core portfolio investments providing good downside protection. In addition, we expect a significant capital return from TLT will enable IFT to resume dividend growth.

Infratil (IFT)		Priced as at 05 Dec 2019: NZ$4.96	
Forsyth Barr valuation			
Valuation methodology			NAV less -20% discount
12-month target price (NZ$)*	**5.20**	**Spot valuations (NZ$)**	
Expected share price return	4.8%	1. NAV	5.96
Net dividend yield	3.6%	2. n/a	n/a
Estimated 12-month return	8.5%	3. n/a	n/a
Key WACC assumptions		**NAV valuation summary (NZ$m)**	
Risk free rate	n/a	Total firm value	5,948
Equity beta	n/a	(Net debt)/cash	(1,711)
WACC	n/a	Value of equity	4,237
Terminal growth	n/a	Shares (m)	659

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 (%)	3.4	3.5	3.5	3.7	3.8
Gross dividend yield (%)	4.7	4.2	4.4	4.8	5.3
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

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	17.5	18.3	19.0

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	1.4	4.3	4.1

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**

NAV Calculation

Investment	**% Owned**	**Value $m**	**% of IFT**	**Value/ share**
Trustpower	50.5	1,213	20.1	1.84
Vodafone	49.9	1,114	18.5	1.69
CDC Data Centres	48.0	1,118	18.5	1.70
Wellington Intl Airport	66.0	825	13.7	1.25
Tilt Renewables	65.4	1,089	18.0	1.65
RetireAustralia	50.0	358	5.9	0.54
Longroad Energy	40.0	128	2.1	0.19
Property/Other	100.0	190	3.1	0.29
Total Assets		**6,035**		**9.15**
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		**3,930**		**5.96**

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

Net asset value changes

Figure 1. Net asset value changes

	Old $m	New $m	Change $m Chg	Old $/share	New $/share	Change $/share	% chg
Trustpower	1,213	1,213	-	$1.84	$1.84	$-	0%
Vodafone NZ	1,114	1,114	-	$1.69	$1.69	$-	0%
CDC Data Centres	1,156	1,118	(38)	$1.75	$1.70	($0.06)	-3%
Wellington Airport	825	825	-	$1.25	$1.25	$-	0%
Tilt Renewables	874	1,089	215	$1.33	$1.65	$0.33	25%
RetireAustralia	370	358	(12)	$0.56	$0.54	($0.02)	-3%
Longroad Energy	132	128	(4)	$0.20	$0.19	($0.01)	-3%
Other	190	190	-	$0.29	$0.29	$-	0%
Total Assets	**5,874**	**6,035**	**160**	**$8.91**	**$9.15**	**$0.24**	3%
less PV of corporate costs	(393)	(393)	-	($0.60)	($0.60)	$-	0%
less Net debt	(1,711)	(1,711)	-	($2.60)	($2.60)	$-	0%
Net Assets	**3,770**	**3,930**	**160**	**$5.72**	**$5.96**	**$0.24**	4%

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 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.

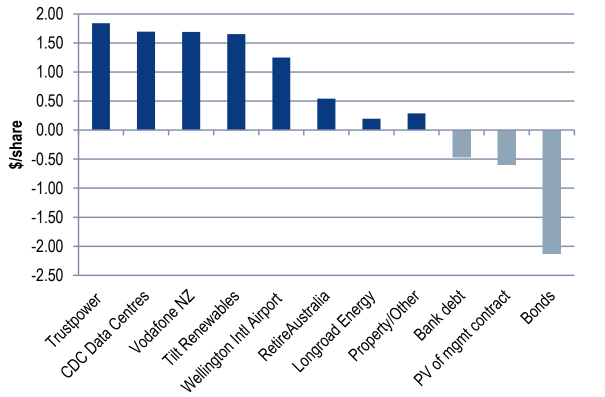
Risk factors

- **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

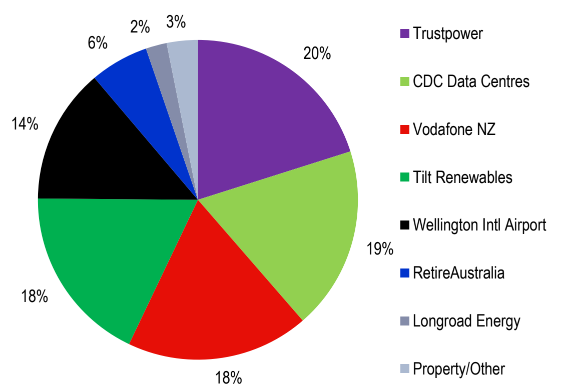
IFT is an investment company that invests in assets of a utility/infrastructure nature. Key investments are Trustpower (51%), Tilt Renewables (65%), Wellington International Airport (66%), Perth Energy (82%), NZ Bus (100%), Canberra Data Centres (48%), RetireAustralia (50%), and Longroad Energy (40%). 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 2. Net asset value breakdown



Source: Forsyth Barr analysis

Figure 3. Net asset value share



Source: Forsyth Barr analysis

Figure 4. Substantial Shareholders

Shareholder	Latest Holding
ACC	6.1%

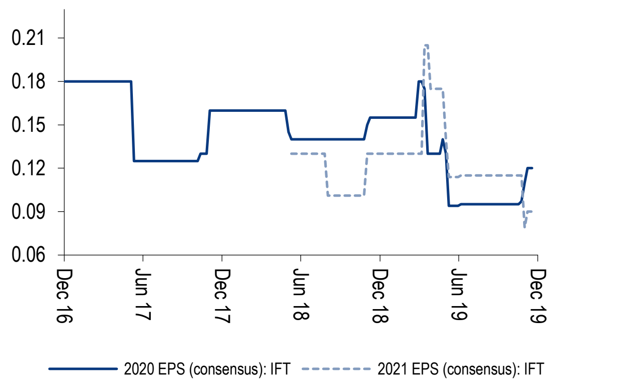
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. 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$4.96**	**NZ$3,267**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**3.7%**
			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**

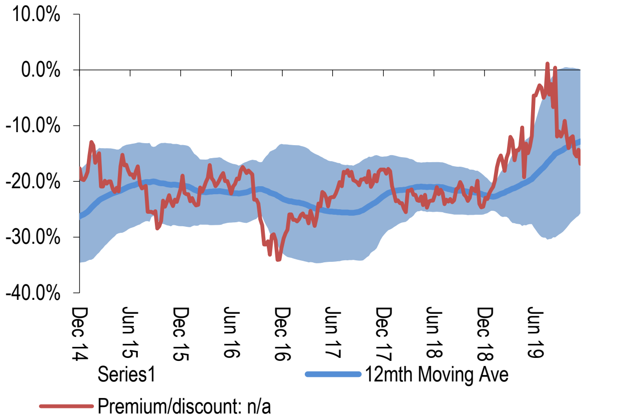
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (IFT) companies fiscal year end

Figure 6. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 7. Historic discount to NAV



Source: Forsyth Barr analysis, Bloomberg