

Infratil

Raising for Growth

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NEUTRAL

In a surprise move, Infratil (IFT) is raising ~NZ\$300m of equity to primarily fund growth investments across its portfolio. The equity raise price of NZ\$4.76 is an -8% discount to the closing price on 8 June and a +9.5% increase in shares on issue. Most of the funds are likely to go to growth projects in CDC Data Centres (CDC) and IFT's northern hemisphere renewable energy platforms, Longroad Energy (LE) and Galileo Green Energy (GGE), although the equity raise also provides some downside protection to the balance sheet. IFT has done well timing the equity raising. The dilution effects of the capital raise has lowered our target price -10cps (-2.1%) to NZ\$4.70. We retain our NEUTRAL rating.

NZX Code	IFT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$5.17	NPAT* (NZ\$m)	n/a	n/a	n/a	n/a	EV/EBITDA	n/a	n/a	n/a	n/a
Target price	NZ\$4.70	EPS* (NZc)	n/a	n/a	n/a	n/a	EV/EBIT	n/a	n/a	n/a	n/a
Risk rating	Medium	EPS growth* (%)	n/a	n/a	n/a	n/a	PE	n/a	n/a	n/a	n/a
Issued shares	722.7m	DPS (NZc)	17.3	17.3	17.3	17.3	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$3,740m	Imputation (%)	60	55	55	55	Cash div yld (%)	3.3	3.3	3.3	3.3
Avg daily turnover	641.1k (NZ\$3,042k)	*Based on normalised profits					Gross div yld (%)	4.1	4.0	4.0	4.0

Equity most likely to fund growth opportunities within existing investments

IFT has emphasised that the equity is to support growth opportunities, with the aim of bringing forward investments that might otherwise be deferred. New investment is most likely to take place in CDC Data Centres (CDC), Longroad Energy and Galileo Green Energy (IFT's new European renewable energy investment vehicle). It appears unlikely that IFT is gearing up to make a new significant investment outside its existing portfolio. In our view any new portfolio investment needs to be more than ~NZ\$600m to become a meaningful part of the portfolio (above ~10%), and part of the rationale for recent asset sales (NZ Bus, ANU Student Accommodation, Perth Energy and Snapper) was they were too small to make a meaningful difference.

Additional capital also provides downside protection

Whilst IFT had the capital to handle the impact of COVID-19 before the capital raise, projecting parent company cash flows indicates that its undrawn facilities would fall to ~NZ\$100m by 31 March 2023 (assuming no dividend reduction), which is getting fairly skinny. The loss of the Wellington Airport (WIAL) subvention payment (-NZ\$45m) and potential support for WIAL (NZ\$50m) and RetireAustralia (RA) (NZ\$10m) are key factors. The NZ\$125m performance fee payment is not helpful to IFT's cash position either as it is a cash payment based on unrealised gains.

No near-term dividend growth likely

IFT has provided no specific commentary or guidance on the dividend going forward, noting that its goal is to maximise total shareholder return. However, given the additional ~63m shares that will be issued and the fact parent cash flows are impacted by incentive fee payments and COVID-19, we maintain our view that over the next few years if the annual dividend is going to change from 17.25cps it is more likely to be a reduction than an increase. That said, we are retaining our 17.25cps dividend forecast.

Infratil (IFT)

Priced as at 09 Jun 2020 (NZ\$)

5.18
12-month target price (NZ\$)*
4.70

Expected share price return

-9.3%

Net dividend yield

3.3%

Estimated 12-month return

-5.9%

Spot valuations (NZ\$)

1. NAV

5.41

2. n/a

n/a

3. n/a

n/a

Key WACC assumptions

Risk free rate

n/a

Equity beta

n/a

WACC

n/a

Terminal growth

n/a

NAV valuation summary (NZ\$m)

Total firm value

5,447

(Net debt)/cash

(1,538)

Less: Capitalised operating leases

Value of equity

3,910

Profit and Loss Account (NZ\$m)

	2019A	2020A	2021E	2022E	2023E
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)	17.3	17.3	17.3	17.3	17.3

Growth Rates

	2019A	2020A	2021E	2022E	2023E
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
Ordinary DPS (%)	3.0	0.0	0.0	0.0	0.0

Cash Flow (NZ\$m)

	2019A	2020A	2021E	2022E	2023E
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)

	2019A	2020A	2021E	2022E	2023E
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
Right of use asset	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
Lease liability	n/a	n/a	n/a	n/a	n/a
Other 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

Valuation Ratios

	2019A	2020A	2021E	2022E	2023E
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 (%)	3.3	3.3	3.3	3.3	3.3
Gross dividend yield (%)	4.0	4.1	4.0	4.0	4.0

Capital Structure

	2019A	2020A	2021E	2022E	2023E
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

	2019A	2020A	2021E	2022E	2023E
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
Imputation (%)	51	60	55	55	55
Pay-out ratio (%)	n/a	n/a	n/a	n/a	n/a

NAV Calculation

Investment	% Owned	Value \$m	% of IFT	Value/share
Trustpower	50.5	1,172	19.8	1.62
Vodafone	49.9	1,041	17.6	1.44
CDC Data Centres	48.0	1,416	24.0	1.96
Wellington Intl Airport	66.0	650	11.0	0.90
Tilt Renewables	65.4	1,021	17.3	1.41
RetireAustralia	50.0	292	4.9	0.40
Longroad Energy	40.0	149	2.5	0.21
Other	100.0	169	2.9	0.23
Less : Present value of mgmt contract		(463)		(0.64)
Total Assets		5,447		7.54
Less : Bank debt		(234)		(0.32)
Less : Infrastructure & Perp Bonds		(1,304)		(1.80)
Net Assets		3,910		5.41

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

Equity raise details

Figure 1. Equity raise details

Amount	NZ\$m	Shares issued (m)	Comment
Institutional placement at NZ\$4.76	250	52.5	
Share purchase plan (SPP)	50	10.5	At the lower of NZ\$4.76 or -2.5% discount to 5-day VAWP to 25 June
Total equity raise	300	63.0	
Net cash proceeds	295		Estimated cash costs of NZ\$5m
Key dates			
Record date	Monday, 8 June		
Institutional placement	Tuesday, 9 June		Institutional placement is underwritten
IFT shares resume trading	Wednesday, 10 June		
SPP opens	Friday, 12 June		Investors may subscribe for up to NZ\$50,000. IFT may accept oversubscriptions
SPP closes	Thursday, 25 June		

Source: IFT, Forsyth Barr analysis

Figure 2. Calculation of theoretical post-equity raise price

Closing price (8 June)	\$ 5.175
Market cap as at 8 June (NZ\$m)	3,414
Add equity raised (NZ\$m)	295
Market cap post-equity raise (NZ\$m)	3,709
Estimated shares on issue post-equity raise	723
Theoretical post-equity raise share price	\$ 5.132
Dilution	-0.8%

Source: Forsyth Barr analysis

Change in bank debt/undrawn facilities – enables and protects downside

Figure 3. Estimated parent company cash flows and movement in bank debt/undrawn facilities to FY23

	Bank debt	Undrawn facilities	Comment
	\$m	\$m	
Bank debt/undrawn facilities as at 31 March 2020	471	277	
Performance fee	42	(42)	
Other movements post-31 March 2020	16	(16)	Mainly interest payments and standard management fee
Bank debt/undrawn facilities as at 8 June 2020	529	219	
Net equity raise proceeds	(295)	295	
Bank debt/undrawn facilities post-equity raise	234	514	
FY21 operating cash flow	(88)	88	FB estimate of remaining FY21 parent company cash flows
FY20 final and 1H21 interim dividend	118	(118)	Assumes 17.25cps maintained
Vodafone acquisition price adjustment	(33)	33	IFT's share of acquisition price adjustment
TLT capital return	(179)	179	Expected to be received in July
July 2020 bond maturity	53	(53)	IFT has indicated the bond will not be refinanced
Estimated 31 March 2021 bank debt/undrawn facilities	104	644	
Possible WIAL support	50	(50)	Agreed equity support as part of revised banking arrangements
Possible RA support	10	(10)	Agreed equity support as part of revised banking arrangements
FY22 operating shortfall (post-IFT dividend)	121	(121)	FB estimate of parent company cash flows (incl dividend payment)
FY23 operating shortfall (post-IFT dividend)	73	(73)	FB estimate of parent company cash flows (incl dividend payment)
Estimated position at 31 March 2023	358	390	
Estimated position at 31 March 2023 if no equity raise	653	95	

Source: Forsyth Barr analysis

Key assumptions (more details of the operating cash flow breakdown can be found in our FY20 result note, published 1 June 2020):

- IFT maintains its 17.25cps annual dividend (6.25cps interim and 11cps final)
- The remaining NZ\$42m p.a. performance fee payments are made in FY22 and FY23, but there are no new performance fees
- No WIAL subvention payment in FY22, returns to ~75% of normal in FY23
- No RA distributions
- Modest growth in cash distributions from Vodafone, CDC

Net asset value changes

Figure 4. Net asset value changes

	Old \$m	New \$m	Change \$m Chg	Old \$/share	New \$/share	Change \$/share	% chg
Trustpower	1,172	1,172	-	\$1.78	\$1.62	(\$0.15)	-9%
Vodafone NZ	1,041	1,041	-	\$1.58	\$1.44	(\$0.14)	-9%
CDC Data Centres	1,420	1,420	-	\$2.15	\$1.97	(\$0.19)	-9%
Wellington Airport	650	650	-	\$0.99	\$0.90	(\$0.09)	-9%
Tilt Renewables	1,021	1,021	-	\$1.55	\$1.41	(\$0.13)	-9%
RetireAustralia	293	293	-	\$0.44	\$0.41	(\$0.04)	-9%
Longroad Energy	157	157	-	\$0.24	\$0.22	(\$0.02)	-9%
Other	169	169	-	\$0.26	\$0.23	(\$0.02)	-9%
Total Assets	5,923	5,923	-	\$8.98	\$8.20	(\$0.78)	-9%
less PV of corporate costs	(505)	(463)	42	(\$0.77)	(\$0.64)	\$0.12	-16%
less Net debt	(1,775)	(1,538)	237	(\$2.69)	(\$2.13)	\$0.56	-21%
Net Assets	3,644	3,922	279	\$5.52	\$5.43	(\$0.10)	-2%

Source: Forsyth Barr analysis

The only change to our NAV assessment is the effects of the equity capital raise. Net debt has been adjusted down for the capital raise (and increased +\$16m for post-balance date cash payments), and the present value of corporate costs has been reduced for the performance fee payment made post-FY20 result. The net effect on our NAV is a -2% reduction to NZ\$5.43/share.

Investment Summary

Our rating is NEUTRAL. Infracore (IFT) has a solid core of investments that will perform well in the expected economic downturn and should also perform well in the long-term, low interest rate environment that is expected to follow the post COVID-19 economic downturn. However, we do not expect any dividend growth in the coming years and NAV growth will be harder to achieve.

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 (telco), 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 (~40%), renewable electricity (~40%) and airports (~10%). 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 cashflow 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.

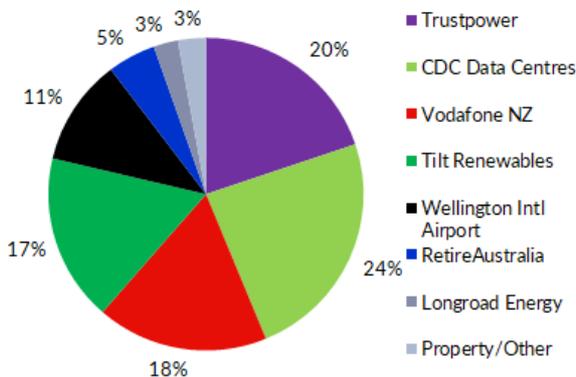
Financial structure

- **Balance sheet pressure relieved by capital raise:** The current COVID-19 crisis is putting significant pressure on Wellington Airport in particular. Whilst IFT had sufficient spare capacity to ride through the downturn, something it comfortably achieved during the GFC, the \$300m equity raise has alleviated any concerns and will ensure IFT can fund future growth opportunities.
- **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

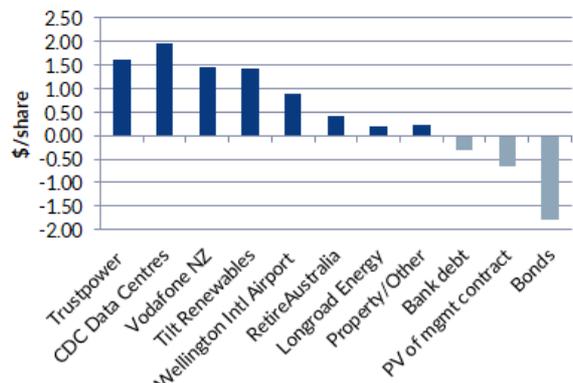
- **Valuation transparency:** IFT favours investments in unlisted assets. It can be difficult to get a clear view on the value of the unlisted assets and this is a factor in IFT trading at a discount to NAV. An investment in IFT is backing the management team to deliver results similar to its track record.
- **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.

Figure 5. Net asset value breakdown



Source: Forsyth Barr analysis

Figure 6. Net asset value per share



Source: Forsyth Barr analysis

Figure 7. Price performance


Source: IRESS, Forsyth Barr analysis

Figure 8. Substantial shareholders

Shareholder	Latest Holding
ACC	6.1%
Fisher Funds Management	5.0%

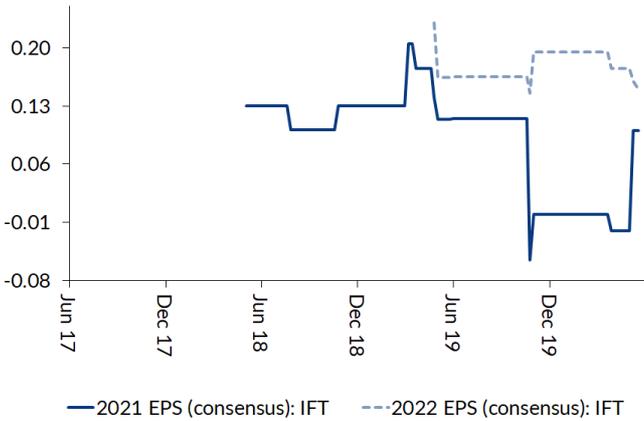
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 9. International valuation comparisons

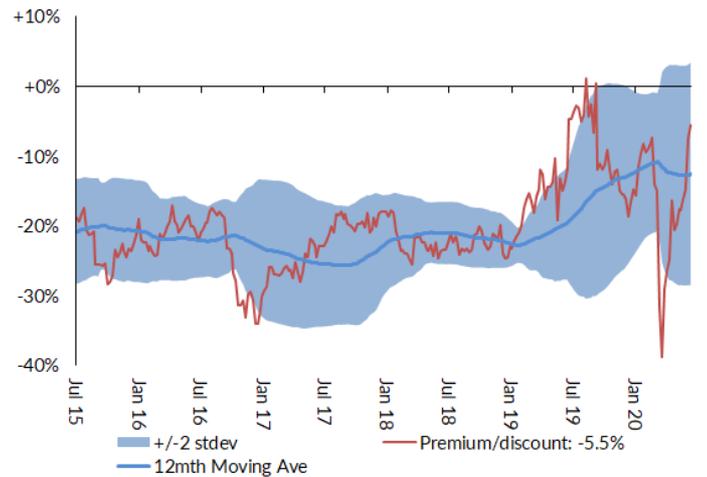
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
Infratil	IFT NZ	NZ\$5.18	NZ\$3,740	n/a	n/a	n/a	n/a	n/a	n/a	3.3%
Compc Average:				n/a	n/a	n/a	n/a	n/a	n/a	n/a
IFT Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

EV = Current Market Cap + Actual Net Debt

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

Figure 10. Consensus EPS momentum (NZ\$)


Source: Bloomberg, Forsyth Barr analysis

Figure 11. One year forward PE (x)


Source: IRESS, Forsyth Barr analysis

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