

Infratil

Data Centre Growth Ramp

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NEUTRAL 

Infratil's (IFT) mini investor day reiterated recent themes; CDC Data Centres (CDC) is IFT's growth engine and Vodafone has plenty of opportunity in front of it. CDC has been IFT's stand-out investment for the past three years and that has not changed, with growth expectations continuing to accelerate. A significant lift in our CDC valuation (up +NZ\$1.54 to NZ\$3.50) has been the key driver of the +NZ\$1.33 increase in our target price to NZ\$5.95. However, we retain our NEUTRAL rating as we have some concerns over how far data centre valuations have run.

NZX Code	IFT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$5.40	NPAT* (NZ\$m)	n/a	n/a	n/a	n/a	PE	n/a	n/a	n/a	n/a
Target price	NZ\$5.95	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	EV/EBITDA	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\$3,902m	Imputation (%)	60	55	55	55	Cash div yld (%)	3.2	3.2	3.2	3.2
Avg daily turnover	627.6k (NZ\$3,024k)	*Based on normalised profits					Gross div yld (%)	3.9	3.9	3.9	3.9

What's changed?

- Net asset value:** Increased +NZ\$1.33 to NZ\$7.08
- Target price:** Increased +NZ\$1.25 to NZ\$5.95
- Rating:** NEUTRAL rating retained

CDC growth trajectory steepens, Vodafone still has the opportunity in front of it

Our key take-out from the CDC presentation is that the growth opportunity has increased. Compared to the last update at the FY20 result in May 2020, installed MW capacity at 31 March 2022 is expected to be 220MW. This is an increase of +57MW, and the visible potential has increased from 278MW to 430MW. COVID-19 was beneficial for CDC (and data centres generally) as it increased the use of digital services.

In contrast, COVID-19 has provided Vodafone with more near-term challenges, with FY21 EBITDAF likely to be -NZ\$60m to -NZ\$75m lower than it otherwise would have been. The key take-out from the Vodafone presentation is that the opportunity still lies in front of it.

CDC value surge lifts IFT target price, and portfolio incentive fee estimate

The +NZ\$1.33 increase in our net asset value to NZ\$7.08 has been driven by an +NZ\$1.55 increase in our CDC valuation. Several factors are behind the CDC valuation increase including a lift in the growth trajectory, a reduction in our cost of capital estimate and a +55% increase in nearest comparator NextDC's share price since the end of March 2020. CDC is the most valuable business in IFT's portfolio at ~35% of total assets.

We have also lifted our valuations of Trustpower (TPW) and Tilt Renewables (TLT) following recent reports on those companies. Offsetting the valuation increases is an estimate of the International Portfolio Incentive Fee, which based on NXT metrics could be in the order of NZ\$225m in FY21. We have not changed our Wellington Airport or Vodafone valuations at this point, pending more information that we expect will be released at IFT's 1H21 result on Thursday, 12 November.

Infratil (IFT)

 Priced as at 21 Oct 2020 (NZ\$) **5.40**

12-month target price (NZ\$)*					5.95	Spot valuations (NZ\$)					
Expected share price return					10.2%	1. NAV					
Net dividend yield					3.2%	2. n/a					
Estimated 12-month return					13.4%	3. n/a					
Key WACC assumptions						NAV valuation summary (NZ\$m)					
Risk free rate						Total firm value					
Equity beta						(Net debt)/cash					
WACC						Less: Capitalised operating leases					
Terminal growth						Value of equity					
Profit and Loss Account (NZ\$m)						2019A	2020A	2021E	2022E	2023E	
Sales revenue	n/a	n/a	n/a	n/a	n/a	EV/EBITDA (x)	n/a	n/a	n/a	n/a	
Normalised EBITDA	n/a	n/a	n/a	n/a	n/a	EV/EBIT (x)	n/a	n/a	n/a	n/a	
Depreciation and amortisation	n/a	n/a	n/a	n/a	n/a	PE (x)	n/a	n/a	n/a	n/a	
Normalised EBIT	n/a	n/a	n/a	n/a	n/a	Price/NTA (x)	n/a	n/a	n/a	n/a	
Net interest	n/a	n/a	n/a	n/a	n/a	Free cash flow yield (%)	n/a	n/a	n/a	n/a	
Associate income	n/a	n/a	n/a	n/a	n/a	Net dividend yield (%)	3.2	3.2	3.2	3.2	
Tax	n/a	n/a	n/a	n/a	n/a	Gross dividend yield (%)	3.8	3.9	3.9	3.9	
Minority interests	n/a	n/a	n/a	n/a	n/a						
Normalised NPAT	n/a	n/a	n/a	n/a	n/a	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	n/a	n/a	n/a	n/a	n/a	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	
Reported NPAT	n/a	n/a	n/a	n/a	n/a	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	
Normalised EPS (cps)	n/a	n/a	n/a	n/a	n/a	Net debt/ND+E (%)	n/a	n/a	n/a	n/a	
DPS (cps)	17.3	17.3	17.3	17.3	17.3	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	
Growth Rates						Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	n/a	n/a	n/a	n/a	n/a	Return on assets (%)	n/a	n/a	n/a	n/a	
EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Return on equity (%)	n/a	n/a	n/a	n/a	
EBIT (%)	n/a	n/a	n/a	n/a	n/a	Return on funds employed (%)	n/a	n/a	n/a	n/a	
Normalised NPAT (%)	n/a	n/a	n/a	n/a	n/a	EBITDA margin (%)	n/a	n/a	n/a	n/a	
Normalised EPS (%)	n/a	n/a	n/a	n/a	n/a	EBIT margin (%)	n/a	n/a	n/a	n/a	
Ordinary DPS (%)	3.0	0.0	0.0	0.0	0.0	Capex to sales (%)	n/a	n/a	n/a	n/a	
Cash Flow (NZ\$m)						Capex to depreciation (%)	n/a	n/a	n/a	n/a	
EBITDA	n/a	n/a	n/a	n/a	n/a	Imputation (%)	51	60	55	55	
Working capital change	n/a	n/a	n/a	n/a	n/a	Pay-out ratio (%)	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	NAV Calculation					
Operating cash flow	n/a	n/a	n/a	n/a	n/a	Investment		% Owned	Value	% of	
Capital expenditure	n/a	n/a	n/a	n/a	n/a			\$m	IFT	Value/share	
(Acquisitions)/divestments	n/a	n/a	n/a	n/a	n/a	Trustpower	50.5	1,210	16.9	1.67	
Other	n/a	n/a	n/a	n/a	n/a	Vodafone	49.9	1,041	14.5	1.44	
Funding available/(required)	n/a	n/a	n/a	n/a	n/a	CDC Data Centres	48.0	2,531	35.3	3.50	
Dividends paid	n/a	n/a	n/a	n/a	n/a	Wellington Intl Airport	66.0	650	9.1	0.90	
Equity raised/(returned)	n/a	n/a	n/a	n/a	n/a	Tilt Renewables	65.4	1,135	15.8	1.57	
(Increase)/decrease in net debt	n/a	n/a	n/a	n/a	n/a	RetireAustralia	50.0	293	4.1	0.41	
Balance Sheet (NZ\$m)						Longroad Energy	40.0	148	2.1	0.20	
Working capital	n/a	n/a	n/a	n/a	n/a	Other	100.0	169	2.4	0.23	
Fixed assets	n/a	n/a	n/a	n/a	n/a	Less : Present value of mgmt contract	(666)			(0.92)	
Intangibles	n/a	n/a	n/a	n/a	n/a	Total Assets	6,512			9.01	
Right of use asset	n/a	n/a	n/a	n/a	n/a	Less : Bank debt	(90)			(0.12)	
Other assets	n/a	n/a	n/a	n/a	n/a	Less : Infrastructure & Perp Bonds	(1,304)			(1.80)	
Total funds employed	n/a	n/a	n/a	n/a	n/a	Net Assets	5,118			7.08	
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						

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

Investor day take-outs – CDC confirms strong growth outlook, Vodafone continues to focus on long-term opportunity

CDC comments – growth trajectory steepens

The key take-out from CDC is that growth is expected to accelerate in the near-term, with demand for data centre services increasing. COVID-19 has helped, with ~2 years of digital growth occurring in six months. CDC is now expected to have commissioned 210MW of capacity by the end of FY22 – 2x current capacity and +57MW more than the last update in May 2020. Total potential facilities have increased to 430MW, from 278MW at May 2020.

We have considered the impact of growth acceleration on our valuation below.

Vodafone comments – all about the opportunity (still)

Our key take-out from the Vodafone presentation is that the opportunity is still in front of it. However, COVID-19 has created some short-term earnings challenges. Whilst COVID-19 has created its own opportunities, it will delay some of Vodafone's earnings uplift with FY21 EBITDAF impacted between -\$60m and -\$75m due to COVID-19 (FY20 EBITDAF was NZ\$481m).

Key opportunities continue to centre around:

- Digital platform improvements
- Operating and capex cost discipline
- Transforming corporate culture and improving capability

Vodafone's presentation was short on numbers, with more detail expected to be revealed at IFT's 1H21 result on Thursday, 12 November.

CDC's closest comparator company, NextDC has been on a tear

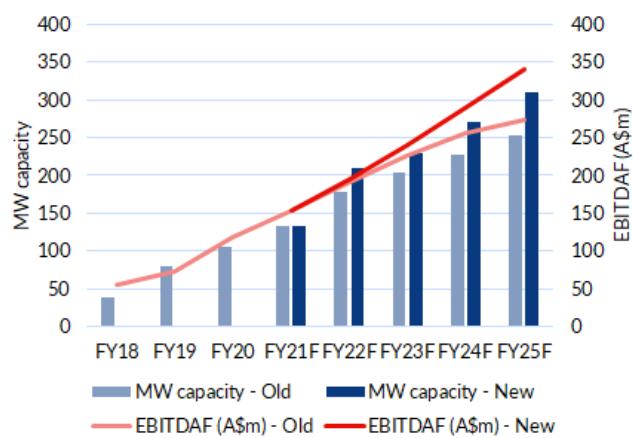
Since the end of January 2020 NextDC's (NXT) share price has more than doubled to A\$13.73 and has increased +54% (A\$4.80) since the end of IFT's financial year end (31 March 2020). The drivers of the share price uplift appear to be a combination of long-term growth prospects improving and falling interest rates. NXT's near-term growth prospects (as measured by FY22 EBITDAF) have not changed materially with FY22 EBITDA consensus fluctuating between a narrow A\$163m and A\$174m range over the past 12-months (it is currently A\$168m).

The read through for CDC is material. NXT is trading on a 49x FY21 EV/EBITDA multiple, 38x FY22 and is still an eye watering 28x FY23 EV/EBITDA multiple. Applying the same metrics to CDC results in a CDC enterprise value (EV) of ~A\$7b and an IFT equity value of ~NZ\$3.2b, roughly 2x IFT's valuation at 31 March 2020.

Updating CDC valuation

Our CDC valuation is based on a DCF and a compco based valuation. Our revised DCF valuation reflects a stronger growth profile, as outlined by CDC at the investor day, a reduction in our cost of capital to 5.5% (from 6.75%) and an increase in capex/MW expectations. Our compco valuation has also increased in light of the strong NXT share price performance, however, we are incorporating -15% pending further analysis. Our revised CDC valuation is NZ\$2.5b, up +NZ\$1.1b.

CDC is the most valuable business in IFT's portfolio at ~35% of total assets. We expect it will continue to be IFT's main value driver.

Figure 1. MW capacity and EBITDAF forecast changes


Source: Forsyth Barr analysis

Figure 2. Valuation changes

Weighting	Old	New	Change	
	NZ\$m	NZ\$m	NZ\$m	%
DCF	67%	1,235	2,425	1,190 96%
Compco	33%	1,782	2,748	966 54%
Average		1,416	2,533	1,117 79%

Source: Forsyth Barr analysis

Performance incentive fee implications

The incentive fee implications from NXT's strong share price performance are material. We estimate that the FY21 International Portfolio Incentive Fee will be ~NZ\$225m (31cps) assuming 1) the CDC valuers use NXT as a key benchmark and 2) there are no gains or losses in IFT's other international assets. Morrison & Co receive 20% of any valuation gain above 12%. However, it is also worth noting, that following IFT's annual meeting, the performance fee can be paid in IFT shares.

NAV assessment rises on CDC and lower interest rates

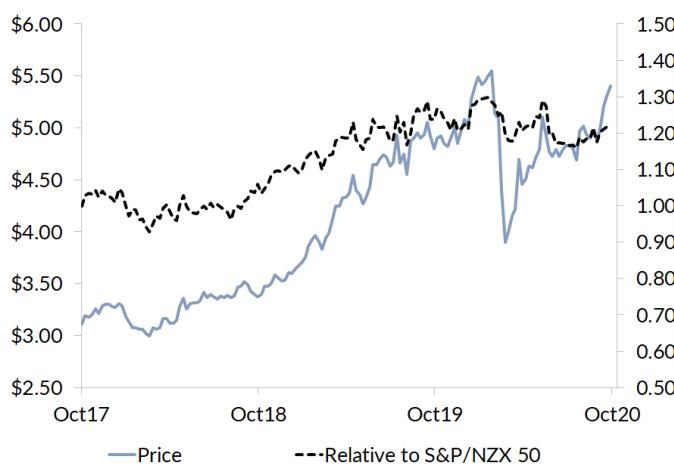
Key NAV changes are:

- CDC uplift as per above of +NZ\$1.55/share
- We have updated our TPW and TLT valuations since our last IFT note and the increases have been reflected here
- Wellington Airport and Vodafone are two of the more COVID-19 impacted businesses, hence, we await more information before updating our valuations. IFT has indicated more information will be forthcoming at the 1H21 result
- We have included an estimate for the possible FY21 portfolio incentive fee given the strong performance of NXT and the positive CDC update

Figure 3. NAV assessment changes

	Old	New	Change	Old	New	Change	% chg	Comment
	NZ\$m	NZ\$m	NZ\$m Chg	NZ\$/share	NZ\$/share	NZ\$/share		
Trustpower	1,172	1,210	38	\$1.62	\$1.67	\$0.05	3%	Updated for recent valuation change
Vodafone NZ	1,041	1,041	(0)	\$1.44	\$1.44	\$0.00	0%	No change pending 1H21 result information
CDC Data Centres	1,416	2,533	1,117	\$1.96	\$3.51	\$1.55	79%	Increase discussed in more detail above
Wellington Airport	650	650	-	\$0.90	\$0.90	\$0.00	0%	No change pending 1H21 result information
Tilt Renewables	1,021	1,135	113	\$1.41	\$1.57	\$0.16	11%	Updated for recent valuation change
RetireAustralia	293	293	(0)	\$0.41	\$0.41	\$0.00	0%	Valued at book (adjusted for fx movements)
Longroad Energy	149	148	(1)	\$0.21	\$0.20	\$0.00	-1%	Valued at book (adjusted for fx movements)
Other	169	169	-	\$0.23	\$0.23	\$0.00	0%	
Total Assets	5,923	7,179	1,256	\$8.20	\$9.93	\$1.74	21%	
less PV of corp. costs	(463)	(666)	(203)	-\$0.64	-\$0.92	-\$0.28	44%	Change is FY21 incentive fee est. (disc for time)
less Net debt	(1,304)	(1,394)	(90)	-\$1.80	-\$1.93	-\$0.12	7%	Net debt movement post-capital raise
Net Assets	4,156	5,119	963	\$5.75	\$7.08	\$1.33	23%	

Source: Forsyth Barr analysis

Figure 4. Price performance


Source: Forsyth Barr analysis

Figure 5. Substantial shareholders

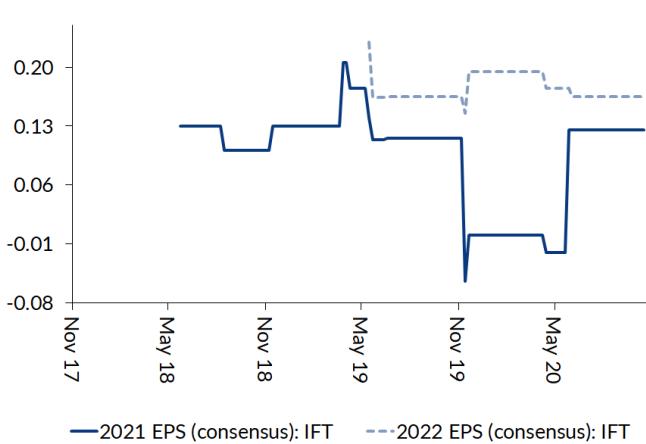
Shareholder	Latest Holding
ACC	6.1%
Fisher Funds Management	5.0%

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

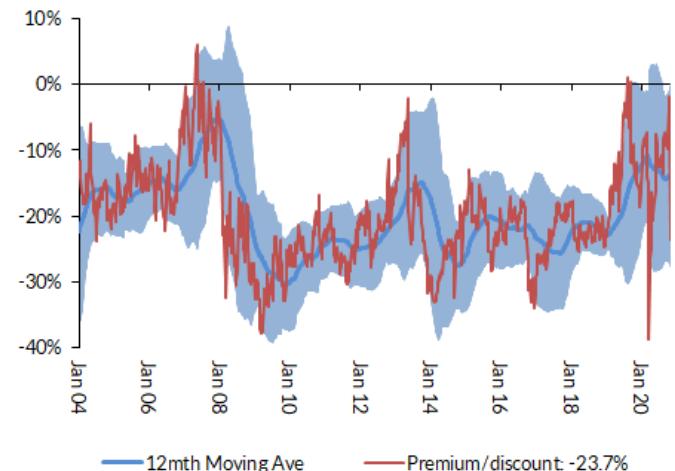
Figure 6. International valuation comparisons

Company (metrics re-weighted to reflect IFT's balance date - March)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Infratil	IFT NZ	NZ\$5.40	NZ\$3,902	n/a	n/a	n/a	n/a	n/a	n/a	3.2%
			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:										

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

Figure 7. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 8. Historic discount to NAV


Source: Forsyth Barr analysis

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