

Infratil

A Platform for Further Growth

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NEUTRAL

IFT has announced an offer to acquire "up to 60%" of Australian diagnostics company 'Qscan' for an equity/enterprise consideration of up to AU\$330m/AU\$440m, representing c. 13-14x forward EBITDA. Qscan will make up c. 5% of IFT's total portfolio. Three key points; (1) we believe it is encouraging that IFT is using the recent (June) NZ\$300m capital raise to acquire a new asset rather than keep it for "general business purposes", mainly paying dividends and performance fees; (2) Qscan fits well with IFT's portfolio strategy of purchasing infrastructure assets growing greater than GDP; (3) the price paid seems reasonable given that it will gain control (c. 60%) of the asset.

NZX Code	IFT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$5.62	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\$4,058m	Imputation (%)	60	55	55	55	Cash div yld (%)	3.1	3.1	3.1	3.1
Avg daily turnover	629.0k (NZ\$3,034k)	*Based on normalised profits					Gross div yld (%)	3.8	3.7	3.7	3.7

Social infrastructure; potential to become a "proper" third pillar

IFT's portfolio is increasingly being dominated by data and connectivity, with CDC and Vodafone NZ now making up almost half of the portfolio, and in the case of CDC, growing fast. Qscan will be part of IFT's "social infrastructure" pillar which until now only consisted of the under performing and sub-scale RetireAustralia asset and Australian Social Infrastructure Partnership (even more sub-scale). IFT was clear on its market briefing that the acquisition of Qscan creates a platform for further growth, organically and in-organically, and specifically stated that IFT expects to participate in further industry consolidation.

Diagnostic imaging shares many of the characteristics IFT is looking for in an asset

When IFT look for new assets, the focus is on; (1) infrastructure like assets with a stable cash flow; (2) structural long term tailwinds; and (3) the ability to re-deploy capital at reasonable incremental returns. IFT's CEO described the acquisition of Qscan as one of the more clean investment cases he had come across. The diagnostic imaging market is growing organically at c. 5% per year, with some of the higher end modalities that Qscan focusses on growing at a faster rate. Underpinning this growth is an aging population, technological advances and increased penetration of imaging, which in Australia is still low by US standards. With regards to Qscan's quality as an infrastructure asset, we believe it is too early to tell. That said, the operating model, where Qscan provides "equipment and services" to radiologists who then share the revenues, has the potential to develop into a more traditional infrastructure like asset over time.

A smaller cash generating core supporting a bigger (and bigger) entity

18 months ago the "cash generating core"; Wellington Airport (WIA) and Trustpower (TPW) made up c. 50% of IFT's assets. Today they make up c. 25%, and in the case of WIA, cash generation is suffering from COVID-19 travel restrictions. Vodafone NZ has the potential to be a future pillar of the cash generative core, but currently is in the midst of a multi-year transformation and does not generate meaningful FCF on our estimates. Hence, while IFT has ample room to re-deploy cash, and Qscan adds further opportunities, the free cash flow generation from the portfolio companies is currently low. In current favourable debt and equity markets we do not consider this an issue. However, we believe investors should be prepared for further potential capital increases and/or portfolio exits.

Infratil (IFT)

Priced as at 27 Oct 2020 (NZ\$)

5.62

12-month target price (NZ\$)*

5.95

Expected share price return

5.9%

Net dividend yield

3.1%

Estimated 12-month return

8.9%

Spot valuations (NZ\$)

1. NAV

7.09

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

6,514

(Net debt)/cash

(1,394)

Less: Capitalised operating leases

Value of equity

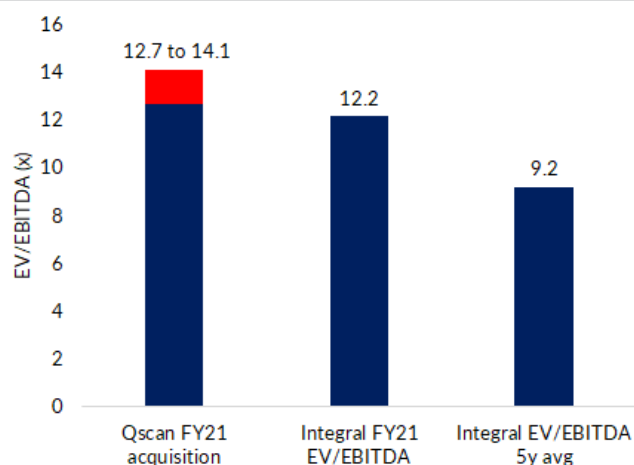
5,120

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	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	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	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	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	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	n/a
Associate income	n/a	n/a	n/a	n/a	n/a	Net dividend yield (%)	3.1	3.1	3.1	3.1	3.1
Tax	n/a	n/a	n/a	n/a	n/a	Gross dividend yield (%)	3.7	3.8	3.7	3.7	3.7
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	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	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	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	n/a
Growth Rates	2019A	2020A	2021E	2022E	2023E	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	n/a
EBITDA (%)	n/a	n/a	n/a	n/a	n/a	Return on equity (%)	n/a	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	n/a
Normalised NPAT (%)	n/a	n/a	n/a	n/a	n/a	EBITDA margin (%)	n/a	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	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	n/a
						Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	51	60	55	55	55
EBITDA	n/a	n/a	n/a	n/a	n/a	Pay-out ratio (%)	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	NAV Calculation					
Other	n/a	n/a	n/a	n/a	n/a						
Operating cash flow	n/a	n/a	n/a	n/a	n/a	Investment	% Owned	Value	% of	Value/	share
Capital expenditure	n/a	n/a	n/a	n/a	n/a			\$m	IFT		
(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	1,042	14.5	1.44	
Funding available/(required)	n/a	n/a	n/a	n/a	n/a	CDC Data Centres	48.0	2,533	35.3	3.51	
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	
						Longroad Energy	40.0	148	2.1	0.20	
						Other	100.0	169	2.4	0.23	
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Less : Present value of mgmt contract		(666)		(0.92)	
Working capital	n/a	n/a	n/a	n/a	n/a	Total Assets		6,514		9.01	
Fixed assets	n/a	n/a	n/a	n/a	n/a	Less : Bank debt		(90)		(0.12)	
Intangibles	n/a	n/a	n/a	n/a	n/a	Less : Infrastructure & Perp Bonds		(1,304)		(1.80)	
Right of use asset	n/a	n/a	n/a	n/a	n/a	Net Assets		5,120		7.09	
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						

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

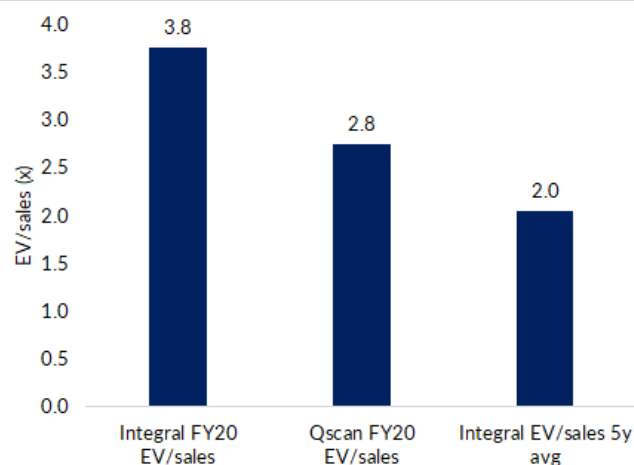
Figures of interest

Figure 1. EV/EBITDA multiple appears reasonable....



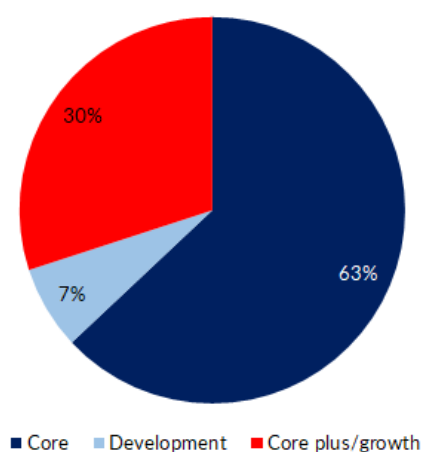
Source: Forsyth Barr analysis, Company reports, Eikon

Figure 2.as does EV/sales



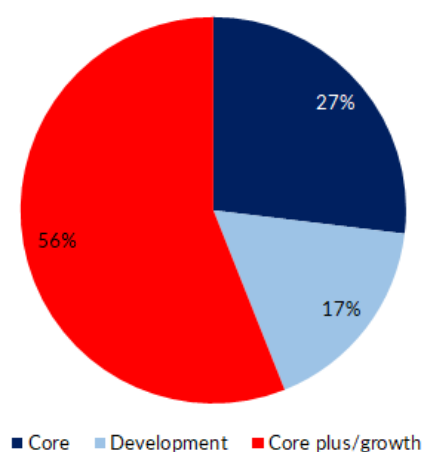
Source: Forsyth Barr analysis, Company reports, Eikon

Figure 3. FY18 portfolio mix



Source: Forsyth Barr analysis, Company reports

Figure 4. Proforma portfolio mix

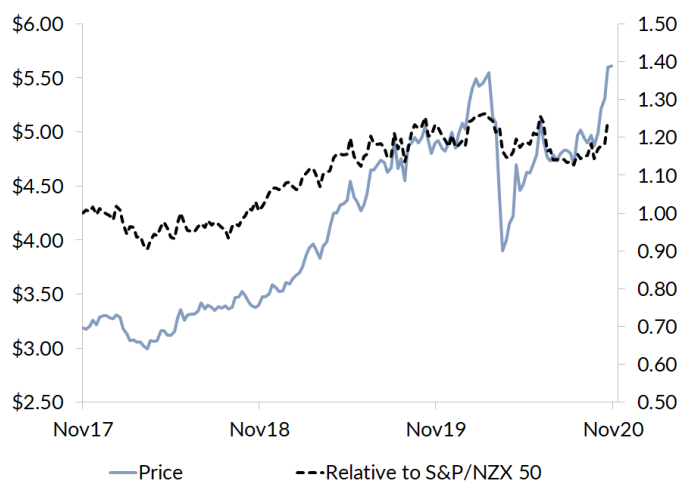


Source: Forsyth Barr analysis

Figure 5. IFT NAV breakdown

	Current			Proforma after Qscan acquisition		
	NZ\$m	\$/share	Portfolio %	NZ\$m	\$/share	Portfolio %
CDC Data Centres	2,533	\$3.51	35%	2,533	\$3.51	34%
Trustpower	1,210	\$1.67	17%	1,210	\$1.67	16%
Tilt Renewables	1,135	\$1.57	16%	1,135	\$1.57	15%
Vodafone NZ	1,042	\$1.44	15%	1,042	\$1.44	14%
Wellington Airport	650	\$0.90	9%	650	\$0.90	9%
Qscan	0	\$0.00	0%	353	\$0.49	5%
RetireAustralia	293	\$0.41	4%	293	\$0.41	4%
Longroad Energy	148	\$0.20	2%	148	\$0.20	2%
Other	169	\$0.23	2%	169	\$0.23	2%
Total Assets	7,180	\$9.94	100%	7,533	\$10.42	100%
less PV of corporate costs	(666)	-\$0.92		(666)	-\$0.92	
less Net debt	(1,394)	-\$1.93		(1,747)	-\$2.42	
Net Assets	5,120	\$7.09		5,120	\$7.09	

Source: Forsyth Barr analysis, Company reports

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
ACC	6.1%
Fisher Funds Management	5.0%

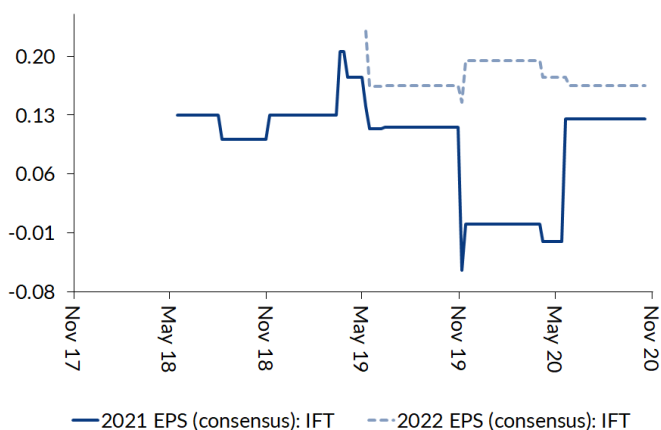
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

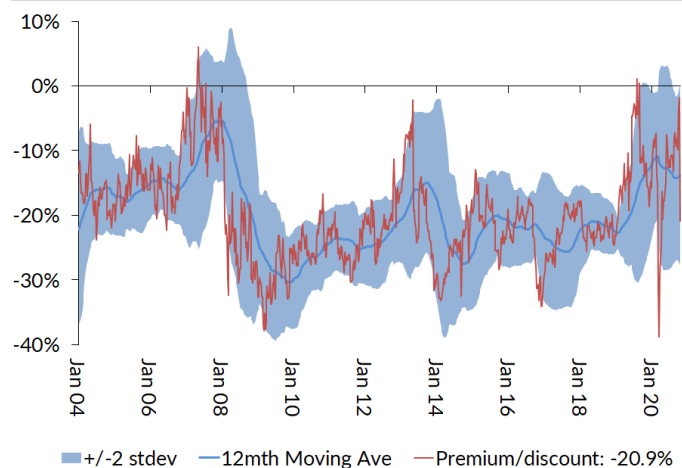
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
Infratil	IFT NZ	NZ\$5.62	NZ\$4,058	n/a	n/a	n/a	n/a	n/a	n/a	3.1%
Compc Average:				n/a	n/a	n/a	n/a	n/a	n/a	n/a
IFT Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

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 9. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 10. Historic discount to NAV


Source: Forsyth Barr analysis

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