

Infratil

Levered Long — So Far, So Good

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NEUTRAL 

Infratil (IFT) will report its 1H21 result on 12 November under a new, proportionate consolidation structure and will introduce FY21 guidance. Three points of interest; (1) Vodafone NZ; it is the largest contributor to EBITDA and has low near term visibility; (2) A potential update on the progression of the recently proposed acquisition of Qscan; and (3) IFT's current view on the valuation of Canberra Data Centres (CDC), a key driver of performance fees and an anchor of consensus' perception of CDC's valuation. In this note, we transfer coverage of IFT to Aaron Ibbotson with immediate effect.

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	640.5k (NZ\$3,106k)	*Based on normalised profits					Gross div yld (%)	3.9	3.9	3.9	3.9

New reporting structure will aid transparency on "look through" earnings and "look through" leverage

We understand that IFT will shift to a more transparent reporting structure at its 1H21 result. This will include proportionate consolidation of all the portfolio holding companies at the EBITDA level, we believe this could have meaningful implications for two reasons. Firstly, it has the potential to accelerate the shift in perception of IFT from primarily a renewable energy focussed company to one focussed on "data and connectivity", we expect that 60% of EBITDA before performance and management fees will come from Vodafone NZ and CDC. Secondly, we believe it has the potential to improve "look through" net debt/EBITDA transparency which we estimate to be ~7x — high against any standard.

Levered long — so far, so good, but cash flow mismatch will likely have to be addressed at some point

We estimate that IFT's cash commitments are ~NZ\$300–NZ\$350m per year, spread across dividends, interest and corporate costs (including incentive fees). Looking at steady cash flow to cover this, IFT currently has ~NZ\$50m in Trustpower (TPW) dividends and a further ~NZ\$50m from Longroad and inter-company loans. A return to normality at Wellington Airport (WIA) would yield another c. NZ\$40–NZ\$50m. This leaves an ~NZ\$150–NZ\$200m p.a. gap that needs to be filled. In FY21 the gap is filled via a capital return from Tilt (TLT) following the sale of Snowtown 2, leaving room for IFT to use the proceeds from its equity raise in June to acquire e.g. Qscan. However, going forward we see little room for special dividends from either TLT or TPW (paid in FY19 and FY20) and believe that cash contributions from Vodafone and CDC are needed to maintain IFT's dividend. Additionally, we expect further international portfolio incentive fees (performance fees) to be paid in shares, creating some minor dilution. At the 1H21 result we are interested in Vodafone capex expectations and comments on actual free cash flow generation to assess its path to increased cash distribution.

Performance fees and Vodafone the biggest unknown; net debt pre-announced

Of IFT's main assets, WIA, TLT and TPW have already reported and CDC has relatively predictable earnings. The biggest delta is likely to come from Vodafone NZ and costs. We expect Vodafone NZ to contribute c. NZ\$103m to EBITDA and corporate costs of NZ\$87m, of which we expect ~NZ\$60m–NZ\$70m to be a performance fee accrual. IFT has pre-announced its corporate net debt at NZ\$1,390m. We expect full year EBITDAF guidance to be somewhere in the range of NZ\$410m–NZ\$455m, before performance fees.

Infratil (IFT)

Priced as at 10 Nov 2020 (NZ\$)

5.40

12-month target price (NZ\$)*

5.95

Expected share price return

10.2%

Net dividend yield

3.2%

Estimated 12-month return

13.4%

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

6,520

(Net debt)/cash

(1,394)

Less: Capitalised operating leases

Value of equity

5,126

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 (%)	3.2	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	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	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	16.8	1.67	
Other	n/a	n/a	n/a	n/a	n/a	Vodafone	49.9	1,044	14.5	1.44	
Funding available/(required)	n/a	n/a	n/a	n/a	n/a	CDC Data Centres	48.0	2,537	35.3	3.51	
Dividends paid	n/a	n/a	n/a	n/a	n/a	Wellington Intl Airport	66.0	650	9.0	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		6,520		9.02	
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		5,126		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

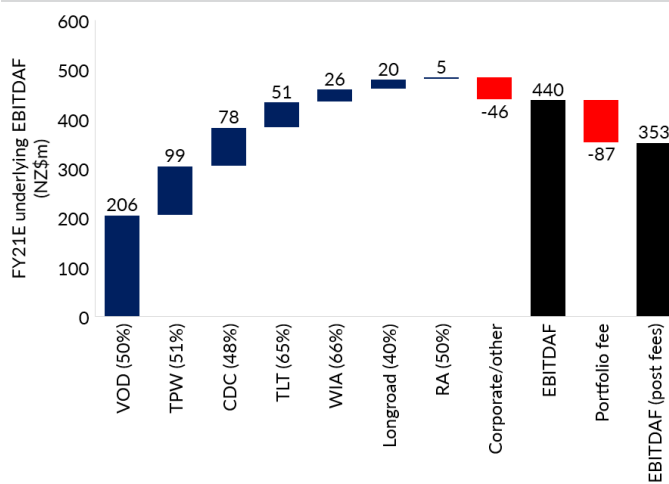
Figures of interest

Figure 1. 1H21 result expectations (NZ\$m)

Forsyth Barr pro-forma underlying EBITDAF estimates (NZ\$m)	1H21E	2H21E	FY21E	FY22E	FY23E
Trustpower (51%)	56	43	99	97	94
Tilt (65%)	22	29	51	74	71
WIA (66%)	7	18	25	49	64
CDC (48%)	37	41	78	99	116
Vodafone (50%)	103	103	206	221	246
Corporate and other	-21	-25	-46	-52	-56
Core portfolio underlying EBITDAF excluding incentive fees	205	209	415	487	534

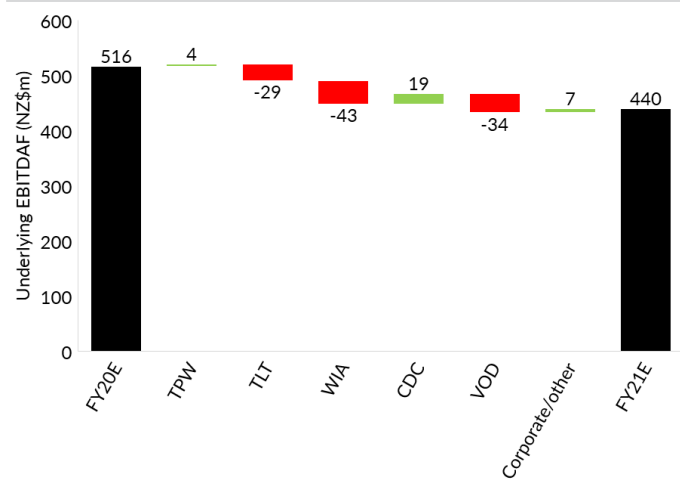
Source: Forsyth Barr analysis

Figure 2. FY21E underlying EBITDAF expectations



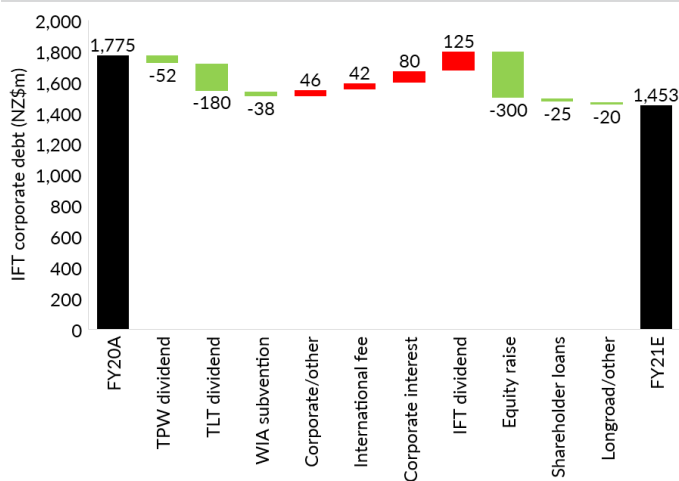
Source: Forsyth Barr analysis

Figure 3. IFT underlying EBITDAF movements



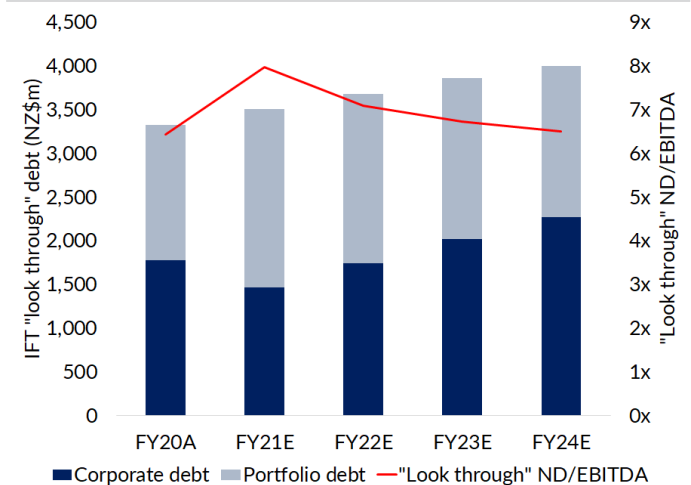
Source: Forsyth Barr analysis

Figure 4. IFT corporate debt movements

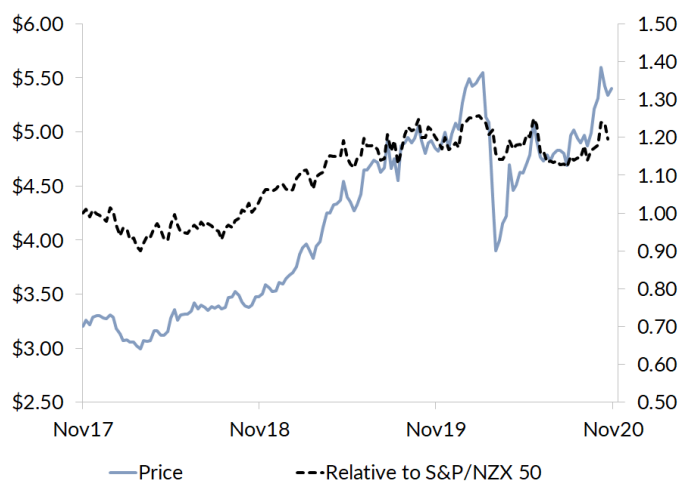


Source: Forsyth Barr analysis

Figure 5. IFT "look through" net debt



Source: Forsyth Barr analysis

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
ACC	6.1%
Fisher Funds Management	5.0%

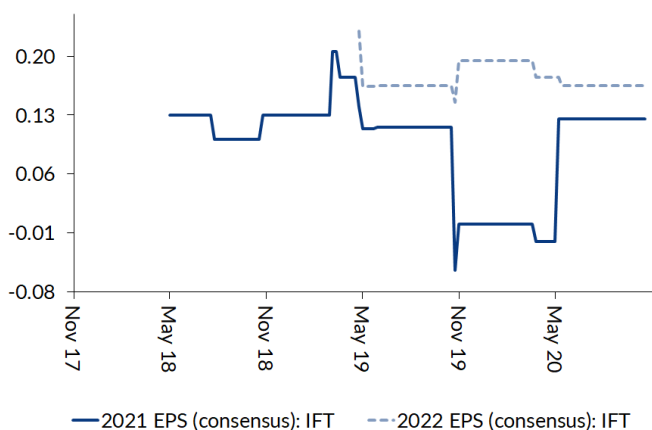
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

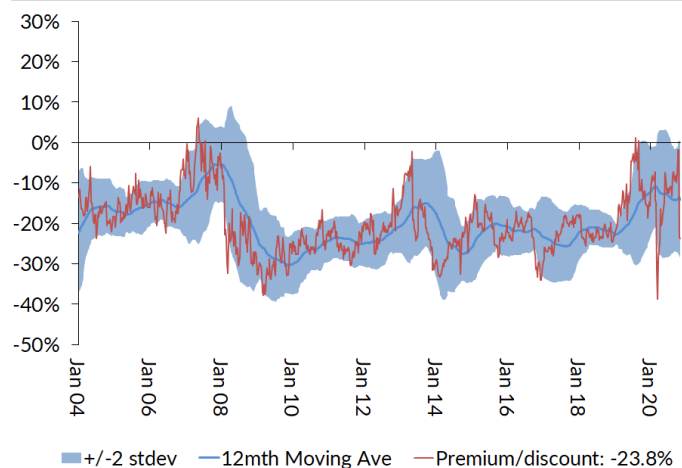
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
Infratil	IFT NZ	NZ\$5.40	NZ\$3,902	n/a	n/a	n/a	n/a	n/a	n/a	3.2%
Compc Average:				n/a	n/a	n/a	n/a	n/a	n/a	n/a
IFT Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

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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