

Infratil

Reverting to a 'New Normal'

AARON IBBOTSON CFA

aaron.ibbotson@forsythbarr.co.nz
+64 9 368 0024

MATT MONTGOMERIE

matt.montgomerie@forsythbarr.co.nz
+64 9 368 0124

NEUTRAL

IFT held a confident investor day with the first half focussed on longer term opportunities within renewables and healthcare and the second half focussed on its core value drivers, Canberra Data Centres (CDC) and Vodafone NZ. We walk away encouraged by the pace of progress for Longroad Energy (US based renewables) and Galileo Green Energy (Europe based renewables) where the case for substantial long term value creation was clearly laid out. Shorter term, we believe IFT's share price will be dominated by the strategic review of Tilt Renewables (TLT), CDC's performance and valuation and Vodafone NZ along with the potential for an increased offer price by the Australian Super Fund. There was no incremental newsflow out of the investor day related to these key value drivers and we remain NEUTRAL with a slightly increased target price of NZ\$7.85.

NZX Code	IFT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$7.52	NPAT* (NZ\$m)	n/a	n/a	n/a	n/a	PE	n/a	n/a	n/a	n/a
Target price	NZ\$7.85	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\$5,435m	Imputation (%)	60	55	55	55	Cash div yld (%)	2.3	2.3	2.3	2.3
Avg daily turnover	670.7k (NZ\$3,537k)	*Based on normalised profits					Gross div yld (%)	2.8	2.8	2.8	2.8

What's changed?

- **Earnings:** Our proportionate FY21/22/23 EBITDAF forecasts increase by +2%/+7%/+7% driven by the incorporation of Qscan.
- **Target price:** Increases to NZ\$7.85 (from NZ\$7.70), primarily due to the mark to market of TLT.

Attractive internal investment opportunities; a scarce asset to be appreciated

In today's ultra low yield environment a wall of capital is chasing diminishing investment returns, driving share prices up and bond yields down. In this context we find it very encouraging that IFT does not appear to be running low on attractive investment opportunities with double digit target returns within its existing portfolio companies. Specifically, we were encouraged by the pace at which both Longroad Energy (US) and Galileo Green Energy (Europe) have evolved. Both of these investments have the potential to grow into meaningful parts of the broader IFT portfolio over the next 5-10 years. However, near-term we do not believe that the development of these two assets will be a meaningful driver of IFT's NAV or share price.

TLT conclusion likely within the next few months; no shortages of future ideas and opportunities

There were no firm progress updates on the ongoing TLT strategic review but IFT's outgoing CEO, Marko Bogoevski, expects a "solid update" by financial year end (March 31). He also indicated that the potential NZ\$1.5bn of proceeds for TLT "may be conservative". A TLT valuation of NZ\$1.5bn compares to IFT's stake at the current market price of c. NZ\$1.6bn, suggesting that current proposals are comfortably circling where TLT is currently trading. While far from certain, at this point we view it as likely that TLT will be sold leaving IFT with up to NZ\$2bn of capital to invest. IFT's incoming CEO, Jason Boyes, suggested that there were "no shortages of ideas and opportunities", some of which may be considered outside of IFT's traditional area of expertise, namely scalable infrastructure. Amongst many potential investments, IFT listed next generation assets such as Artificial Intelligence, Robotics and 5G technology. We view it as more likely that IFT would buy some mobile towers than take on Alphabet's Waymo, but we have been surprised before.

Infratil (IFT)

Priced as at 16 Feb 2021 (NZ\$)

7.52

12-month target price (NZ\$)*

7.85

Expected share price return

4.4%

Net dividend yield

2.3%

Estimated 12-month return

6.7%

Spot valuations (NZ\$)

1. NAV

7.85

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

0

(Net debt)/cash

0

Less: Capitalised operating leases

0

Value of equity

0

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

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

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 (%)	2.3	2.3	2.3	2.3	2.3
Gross dividend yield (%)	2.7	2.8	2.8	2.8	2.8

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	Value/share
Trustpower	51%	1,376	1.9
Vodafone	50%	1,366	1.9
CDC Data Centres	48%	2,407	3.3
Wellington Intl Airport	66%	762	1.1
Tilt Renewables	65%	1,560	2.2
RetireAustralia	50%	274	0.4
Longroad Energy	40%	190	0.3
Qscan	56%	347	0.5
Other	100%	211	0.3
Total Assets		8,493	11.7
Less : PV of corporate costs		(643)	(0.9)
Less : Incentive fee earned but not paid (implied)		(350)	(0.5)
Less : Bank debt		(480)	(0.7)
Less : Infrastructure & Perp Bonds		(1,352)	(1.9)
Net Assets		5,669	7.8

Forecast changes and charts

Reversing our scenario analysis and removing the "double discount"

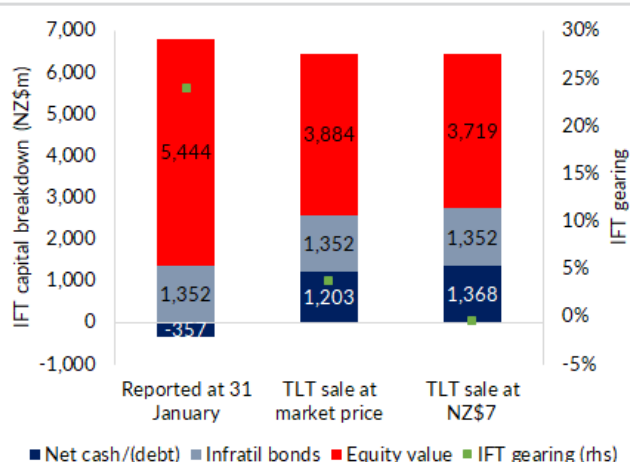
In our report *"Not a Foregone Conclusion"* published, 14 December 2020, after the indicative offer from the Australian Super Fund we laid out five potential scenarios. One of our two central scenarios was a "new normal" where we removed the double discount (capitalised costs as well as the 10% conglomerate discount) but applied no takeover premium on top of that. With this report, we use this as our base case scenario which lifts our target price to NZ\$7.85 (from NZ\$7.70) and also incorporate IFT's newest addition to its portfolio, Qscan, into our EBITDAF forecasts. While we see downside support from a potentially increased bid we believe a likely sale of TLT and a removal of the double discount that the market has thus far applied to IFT makes it unlikely that IFT as a whole will be sold.

Figure 1. Proportionate EBITDAF forecast changes (NZ\$m)

	FY21E		FY22E		FY23E	
	Old	New	Old	New	Old	New
Trustpower (51%)	99	99	97	97	94	94
Tilt (65%)	51	51	74	74	72	72
WIA (66%)	26	26	49	49	64	64
CDC (48%)	78	78	98	98	125	125
Vodafone (50%)	219	219	241	241	261	261
Longroad (40%)	20	20	25	25	30	30
Qscan (56%)	n/a	8	n/a	38	n/a	43
Retire Australia (50%)	5	5	7	7	10	10
Corporate and other	(46)	(46)	(52)	(52)	(56)	(56)
Underlying EBITDAF excluding incentive fees	453	461	538	576	601	644

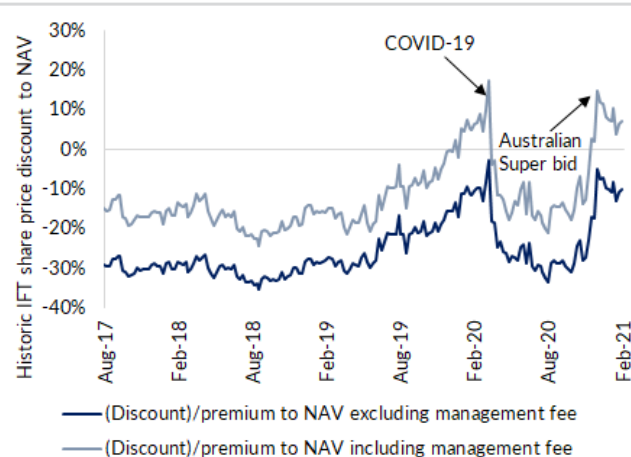
Source: Forsyth Barr analysis

Figure 2. IFT capital breakdown

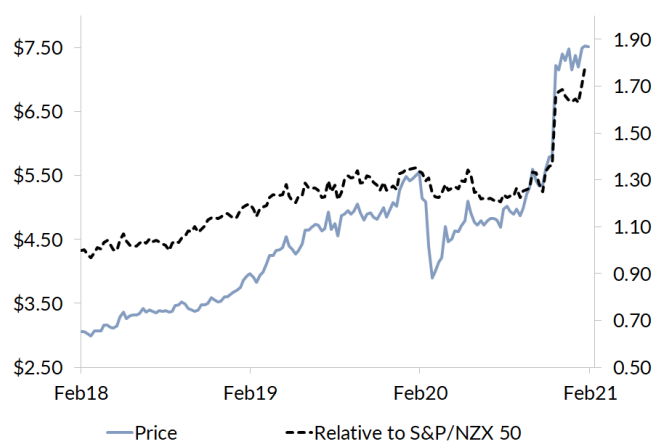


Source: Forsyth Barr analysis, Company reports

Figure 3. IFT historic discount to NAV



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%

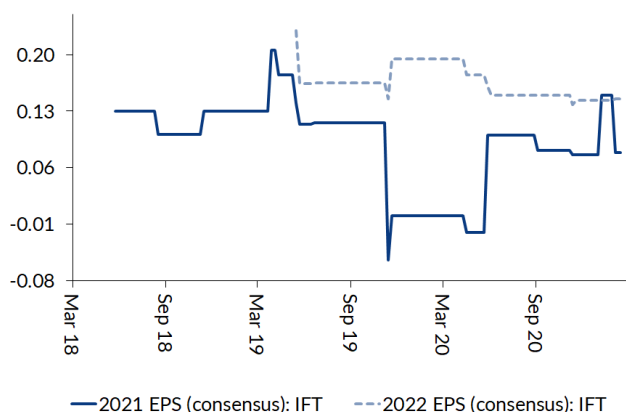
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. International valuation comparisons

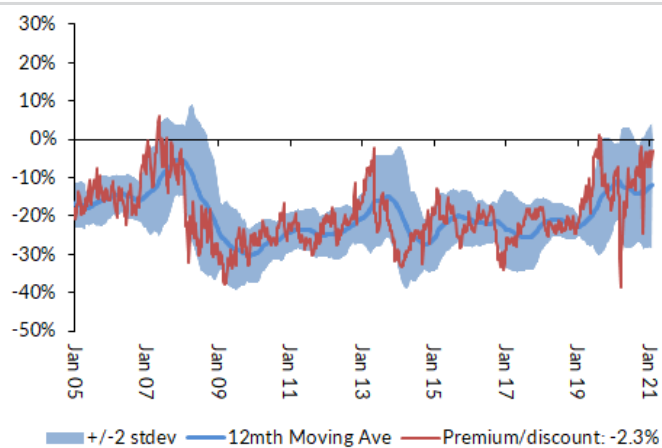
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
Infratil	IFT NZ	NZ\$7.52	NZ\$5,435	n/a	n/a	n/a	n/a	n/a	n/a	2.3%
Compco Average:				n/a	n/a	n/a	n/a	n/a	n/a	n/a
IFT Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

EV = Current Market Cap + Actual Net Debt

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

Figure 7. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 8. IFT historic discount to NAV


Source: Forsyth Barr analysis

Analyst certification: The research analyst(s) primarily responsible for the preparation and content of this publication ("**Analysts**") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

Analyst holdings: The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

Ratings distributions: As at 15 Feb 2021, Forsyth Barr's research ratings were distributed as follows:

OUTPERFORM	NEUTRAL	UNDERPERFORM
46.2%	36.5%	17.3%

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

Disclosure: Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

Investment banking engagements: Other than confidential engagements, Forsyth Barr has within the past 12 months been engaged to provide investment banking services to the issuer that is the subject of this publication. For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to any other issuer referred to in this publication, please refer to the most recent research report for that issuer's financial products.

Not personalised financial advice: The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

Disclaimer: This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

Terms of use: Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.