

Infratil

Great Exit, Now for the Hard Part

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NEUTRAL 

Tilt Renewables (TLT) have announced they have entered a Scheme Implementation Agreement (SIA) with Powering Australian Renewables (PowAR) and Mercury (MCY). Under the SIA TLT's shareholders will receive NZ\$7.80 per share resulting in cash proceeds of ~NZ\$1.9b for Infratil's (IFT) 65% stake in TLT and is set to trigger a total incentive fee of just over NZ\$200m. TLT was spun out of Trustpower (TPW) in October 2016, a core component of IFT's portfolio since inception in 1994. However, looking at IFT's returns since TLT was listed, the sale price implies an unlevered IRR of ~40% before fees and ~35% after fees. This is a very strong exit even in light of interest rate tail winds. The next question is – where to from here? We would expect the lion's share of the net NZ\$1.9b proceeds to be re-deployed into new assets. However, we would not rule out some form of capital distribution.

| NZX Code | IFT | Financials: Mar/ | 20A | 21E | 22E | 23E | Valuation (x) | 20A | 21E | 22E | 23E |
|--------------------|---------------------|------------------------------|------|------|------|------|-------------------|-----|-----|-----|-----|
| Share price | NZ\$7.46 | NPAT* (NZ\$m) | n/a | n/a | n/a | n/a | PE | n/a | n/a | n/a | n/a |
| Target price | NZ\$8.20 | 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\$5,391m | Imputation (%) | 60 | 55 | 55 | 55 | Cash div yld (%) | 2.3 | 2.3 | 2.3 | 2.3 |
| Avg daily turnover | 683.2k (NZ\$3,738k) | *Based on normalised profits | | | | | Gross div yld (%) | 2.9 | 2.8 | 2.8 | 2.8 |

What's changed?

- **Target price:** Increased to NZ\$8.20 (from NZ\$7.85) reflecting increased TLT sale proceeds

What a difference three months makes; Australian Super bid likely firmly off the table but conglomerate discount will not return

The Australian Super Fund has gone quiet since its rejected bid of IFT three months ago. We believe that TLT and Canberra Data Centres (CDC) were the two main assets of interest to Australian Super, with one of them now likely gone we believe a new bid is off the table. However, we do believe that the bid has contributed to a "permanent" removal of IFT's historic double discount. In our report *"Reverting to a New Normal"* published 17th February 2021 we removed the 10% conglomerate discount that IFT has historically traded on. The disciplined TLT exit solidifies our view that the market is unlikely to return to applying a conglomerate discount for the foreseeable future.

Buying well is harder than selling well in today's markets

With public market valuations at or close to all time highs and private valuations even higher, we would describe the market as a "sellers" market. IFT has done an excellent job of achieving a high price for TLT, but now finds itself in a more challenging situation; re-deploying the proceeds. We see ample room to re-deploy a meaningful proportion of the proceeds into current portfolio companies as well as expanding on existing platforms. However, at its February investor day IFT also outlined an ambition to branch out of its traditional strong hold of scalable infrastructure into areas such as Artificial Intelligence and Robotics. Major acquisitions in new areas comes with increased risk and we believe that it will be difficult to find attractively priced targets in these areas.

Near term NZ\$300m in fees; medium term should moderate

The sale of TLT will bring about heightened near-term fees with FY21 to be based on a "undisturbed" TLT share price of NZ\$5.44 resulting in a combined fee of NZ\$217m. In addition, a realised fee upon completion of the sale is estimated at NZ\$107m (payable April 2022). Medium term we would expect the fee to moderate as IFT's total capital lowers.

Infratil (IFT)

Priced as at 15 Mar 2021 (NZ\$)

7.46

12-month target price (NZ\$)*

8.20

Expected share price return

9.9%

Net dividend yield

2.3%

Estimated 12-month return

12.2%

Spot valuations (NZ\$)

1. NAV

8.20

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 |

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 (%) | 2.8 | 2.9 | 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 |

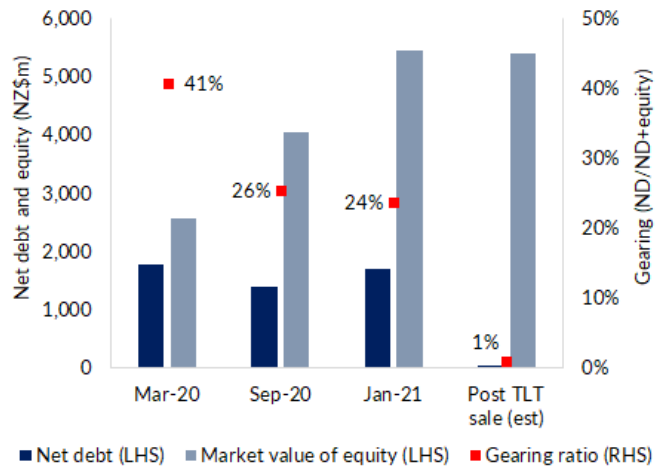
NAV Calculation

| Investment | % Owned | Value \$m | Value/ share |
|--|---------|--------------|--------------|
| Trustpower | 51% | 1,293 | 1.8 |
| Vodafone | 50% | 1,311 | 1.8 |
| CDC Data Centres | 48% | 2,418 | 3.3 |
| Wellington Intl Airport | 66% | 858 | 1.2 |
| Tilt Renewables | 65% | 1,926 | 2.7 |
| RetireAustralia | 50% | 274 | 0.4 |
| Longroad Energy | 40% | 193 | 0.3 |
| Qscan | 56% | 350 | 0.5 |
| Other | 100% | 211 | 0.3 |
| Total Assets | | 8,833 | 12.2 |
| Less : PV of corporate costs | | (643) | (0.9) |
| Less : Incentive fee earned but not paid (implied) | | (415) | (0.6) |
| Less : Bank debt | | (489) | (0.7) |
| Less : Infrastructure & Perp Bonds | | (1,352) | (1.9) |
| Net Assets | | 5,934 | 8.2 |

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

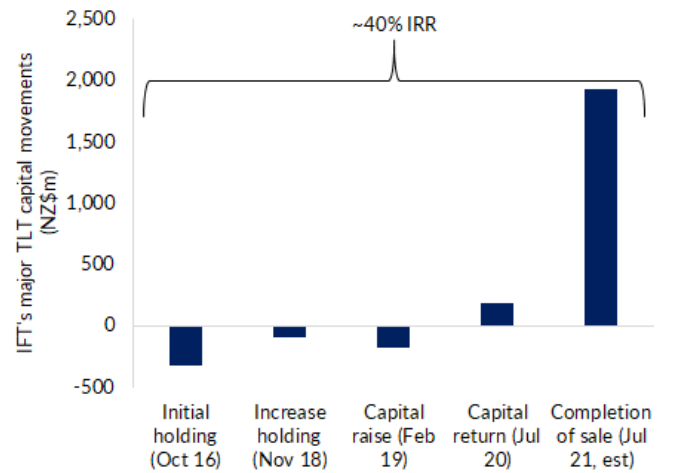
Charts of interest

Figure 1. Robust balance sheet post TLT sale

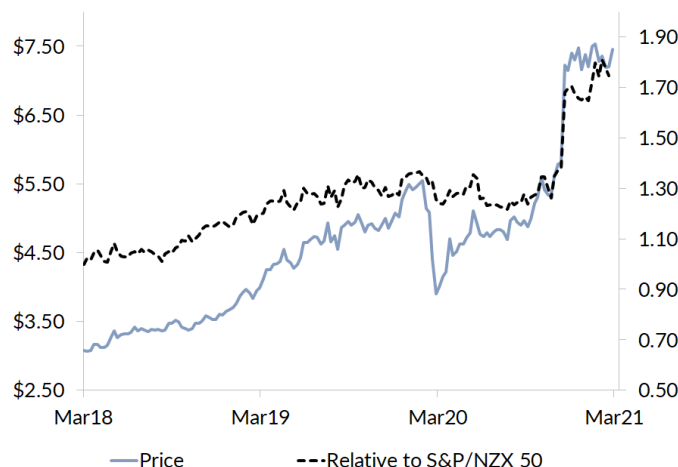


Source: Forsyth Barr analysis, Company reports

Figure 2. TLT — a strong exit for IFT



Source: Forsyth Barr analysis, Company reports

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

| Shareholder | Latest Holding |
|-------------------------|----------------|
| ACC | 6.1% |
| Fisher Funds Management | 5.0% |

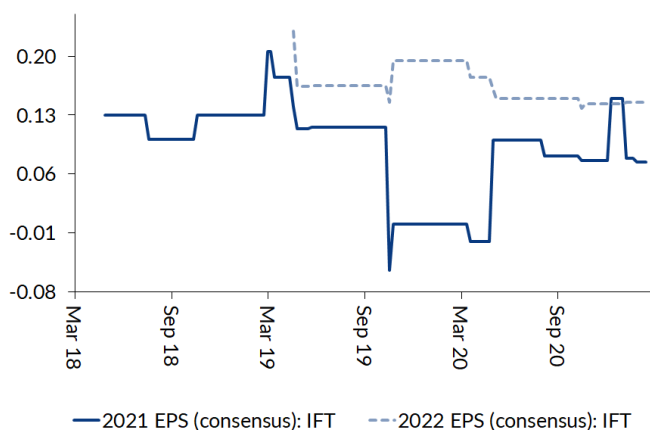
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

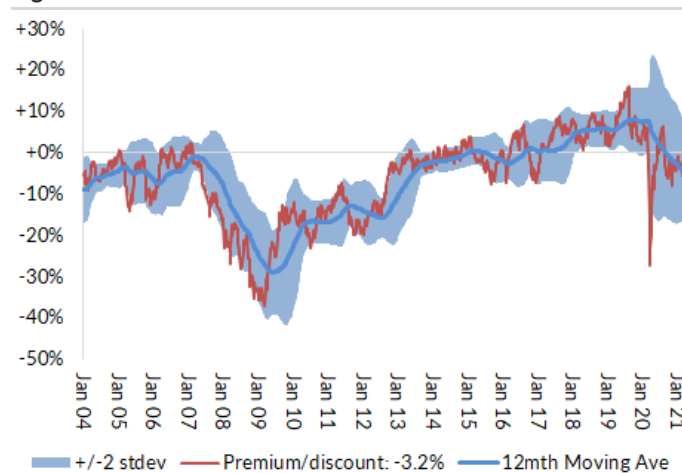
| Company | Code | Price | Mkt Cap (m) | PE 2021E | PE 2022E | EV/EBITDA 2021E | EV/EBITDA 2022E | EV/EBIT 2021E | EV/EBIT 2022E | Cash Yld 2022E |
|----------------|--------|----------|-------------|----------|----------|-----------------|-----------------|---------------|---------------|----------------|
| Infratil | IFT NZ | NZ\$7.46 | NZ\$5,391 | n/a | n/a | n/a | n/a | n/a | n/a | 2.3% |
| 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 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. IFT historic discount to NAV


Source: Forsyth Barr analysis

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