

NEW ZEALAND FIXED INTEREST RESEARCH

19 NOVEMBER 2020

Infratil

Bond Offer

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Infratil (IFT) is undertaking a tap issue of its existing NZDX quoted bond (IFT300) with a maturity of 15 March 2026. IFT is offering up to NZ\$50m (plus the ability to accept up to NZ\$50m of oversubscriptions) of Infrastructure Bonds. There are two issue dates. The issue price will be different depending on what issue date is chosen. The offer is at a yield of 3.00% meaning for each NZ\$1.00 face value of IFT300, you will be paying NZ\$1.01694 or NZ\$1.01619 per bond.

Figure 1. Issue details

Issuer	Infratil	Maturity date	15 March 2026	Key dates	
Security	Unsecured, unsubordinated	Credit rating	n/r	Open	19-Nov-20
NZDX code	IFT300	Credit rating outlook	n/a	Rate set	n/a
Coupon	3.35%	Min holdings	NZ\$5k, 1k	Close	10-Mar-21
Issue yield	3.00%	ISIN	NZIFTD0300L0	Issue	15-Dec-20 & 15-Mar-21
Interest payments	Quarterly	Registry	Link Market Services	Expected quotation	n/a
Amount on issue	NZ\$36.9m	Supervisor	Trustees Executors	First Interest pymt	15-Mar-21 or 15-Jun-21

Source: Forsyth Barr analysis

Two issue dates and a premium

IFT bonds will be issued on two dates. The first allotment will take place on 15 December 2020, which will see bondholders receive their first coupon on 15 March 2021. The second will be 15 March 2021, where any applications received post 10 December 2020 but before 15 March 2021 will see the first coupon date of 15 June 2021.

The issue yield is below that of the coupon meaning the issue price of the bonds will be higher than face value (NZ\$1.00). The price per NZ\$1.00 will be **NZ\$1.01694**. For applications received after 10 December 2020, the price changes to **NZ\$1.01619**.

Changing portfolio mix

IFT has undertaken several transactions recently that have changed the mix of its portfolio, reducing its reliance on previous core assets such as Trustpower (TPW) and Wellington International Airport (WIA). The recently announced investment into the Qscan Group in Australia will represent ~5% of its portfolio, with CDC Data Centres now the biggest at 28% followed by TPW at 17% and Vodafone NZ at 16%. IFT recently released its financial results for its first half of its FY21 financial year. The outstanding performer continues to be the CDC Data Centres asset, which saw its EBITDAF grow by +44% versus the pcp. Vodafone NZ delivered an estimated -3% decline in EBITDAF of NZ\$112.1m (excluding the impacts of COVID-19).

Unsubordinated but structurally subordinated

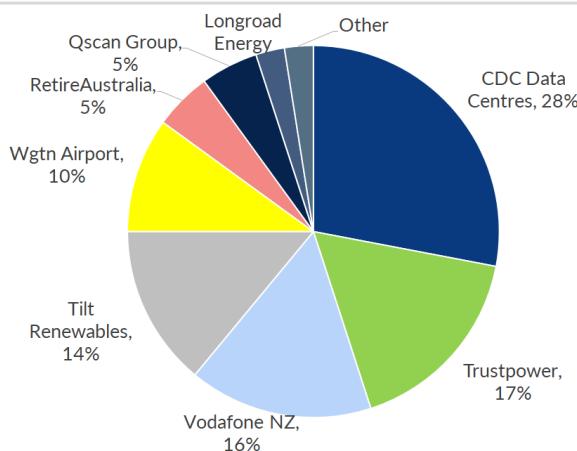
The Bonds are unsecured, unsubordinated bonds issued by Infratil Limited. However, due to the capital structure of the Infratil Group the Bonds are structurally subordinated to other lenders to Infratil's subsidiaries. As a holding company, IFT's main assets are the shares in subsidiaries. If these subsidiaries have borrowings, the providers of those loans will be "closer" to the assets than lenders to IFT (e.g. bondholders). IFT uses the returns from its investment assets, like TPW, to meet its borrowing obligations.

Forsyth Barr Limited has been appointed as a Joint Lead Manager to the offer and will receive fees for undertaking this role including a fee based on the amount of bonds subscribed for by its clients. The offer is only being offered to investors who are resident in New Zealand. Full details of the offer are contained in the terms sheet. Potential investors should read the terms sheet thoroughly.

Portfolio

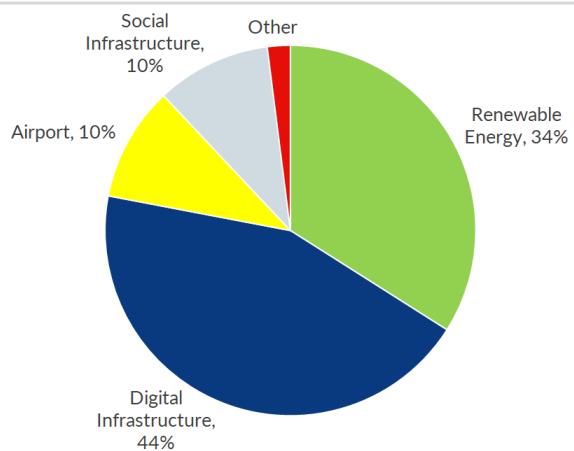
There has been a significant change in the portfolio over the last couple of years with Vodafone NZ (acquired in July 2019 for NZ\$1,029.6m) and CDC Data Centres now the prominent drivers of IFT's share price performance. IFT owns 48.1% of CDC and 49.9% of Vodafone NZ. Wellington International Airport (WIA) remains in a difficult situation due to COVID-19 and the timing or 'normal conditions' remains uncertain as does the prospect a dividend/capital injection. It is still early days for Vodafone NZ and the task to challenge market leader Spark (SPK) and keep pace with extremely fast moving technology is a large one.

Figure 2. Portfolio composition



Source: Forsyth Barr analysis, assumes Qscan acquisition

Figure 3. Sector composition



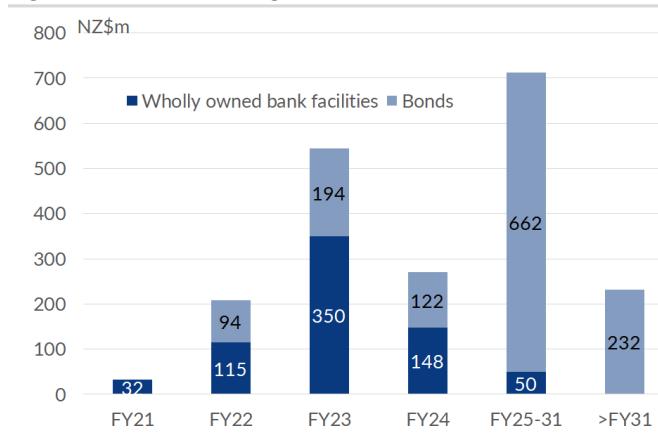
Source: Forsyth Barr analysis, assumes Qscan acquisition

Debt Profile

Using both debt and equity markets

IFT has raised ordinary equity twice recently, NZ\$400m in May 2019 (Vodafone NZ acquisition) and again in June 2020 for an additional NZ\$300m (fund growth and alleviate balance sheet pressures). With another acquisition underway for 60% of Qscan for up to NZ\$350m (A\$330m) and funding of NZ\$609m available (as at 30 September 2020 half year result), the balance sheet is once again going to need excellent management, something IFT has done very well over the years.

Figure 4. IFT debt funding/liquidity (as at 31 July 2020)



Source: Forsyth Barr analysis, IFT 2020 annual result

Figure 5. Debt and funding available

NZ\$m	31 March 2020	30 September 2020
Net bank debt	470.9	85.8
IFT Bonds	1,071.9	1,071.9
IFTHA (Perpetuals)	231.9	231.9
Total net debt	1,774.7	1,389.6
Market value of equity*	2,579.3	3,607.5
Total capital	4,354.0	4,997.7
Gearing	40.8%	27.8
Infratil undrawn bank facilities	268	593
100% subsidiaries cash	9.1	16.2
Funds available	277.1	608.2

Source: Forsyth Barr analysis, *Using share price of \$4.99

Bond features

All of IFT's bonds that are quoted on the NZDX are of the same class and have the features highlighted below

Liabilities to assets covenant

The Bonds contain a financial covenant in favour of bondholders. IFT must ensure on the last day of each financial year and financial half year (and in certain other circumstances) that borrowed money indebtedness of the Issuer Group (being IFT and its 100% owned subsidiaries) does not exceed 50% of tangible assets of IFT and its subsidiaries as at that date.

Interest suspension and dividend stopper

IFT may suspend the payment of interest where an Interest Suspension Event exists. If the payment of interest is suspended:

1. Interest will continue to accrue (without compounding) and will be paid by Infratil when the Interest Suspension Event ceases to exist and
2. Infratil will not pay or make any distribution to shareholders or provide any financial assistance for the acquisition of shares in Infratil

Early repayment

IFT has the right to redeem all or some of the Infrastructure Bonds of each Series prior to the maturity date for that Series by giving bondholders no less than 5 Business Days' notice. IFT may only exercise this right if:

- The Supervisor has not declared the relevant Series of Infrastructure Bonds due and payable because an event of default as described in the Trust Deed exists and
- The notice of early redemption is given at a time prior to the day falling 25 business days before the maturity date

Bondholders have no right of early redemption except following an Early Redemption Event.

Pricing

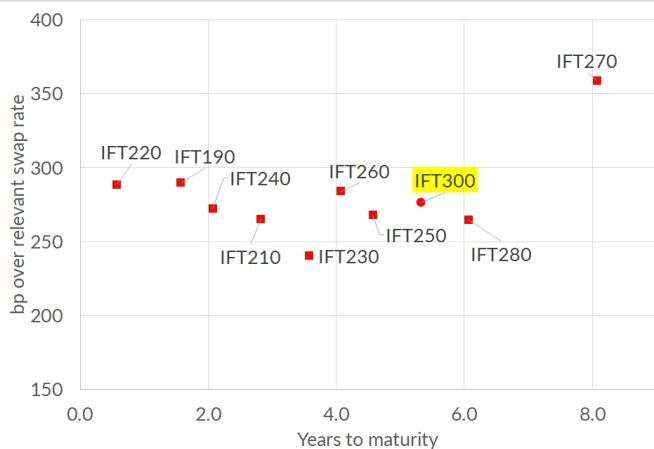
IFT currently has 12 bonds quoted on the NZDX. 10 of these issues are traded on a yield basis, while two (IFTHA and IFTHC) are traded on price given their coupon reset feature. Figure 7 illustrates how IFT bonds trade wider than bonds issued by its subsidiaries, such as Trustpower and WIA.

When IFT300 was first quoted on the NZDX back on 15 November 2019, at a coupon of 3.35%, the issue credit spread was 205bp. At the current swap rate the implied credit spread is 260bp at a yield of 3.00%.

Early bird interest

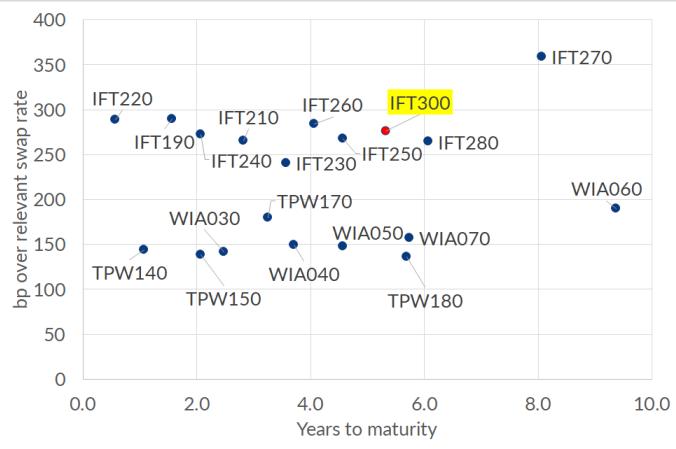
Early bird interest is payable at the Issue Yield (3.00%) on the Issue Price in respect of accepted applications that have been banked into the trust account operated in respect of the offer prior to the relevant issue date.

Figure 6. IFT secondary market credit spreads



Source: Forsyth Barr analysis, Refinitiv

Figure 7. Secondary market credit spreads (IFT Group, NZDX)



Source: Forsyth Barr analysis, Refinitiv

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