

Infratil

Trading Defensively, Mostly

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OUTPERFORM

Infratil's (IFT) COVID-19 trading update was largely as expected, highlighting the defensive characteristics of its portfolio, but also acknowledging the challenges facing Wellington Airport and RetireAustralia, in particular. However, the Vodafone commentary indicated it is facing greater short-term challenges than expected. Our target price is unchanged (\$4.90), but we have lowered our FY20 dividend forecast -2cps to 15.25cps in light of IFT's dividend commentary. We retain our OUTPERFORM rating as IFT is likely to be one of the more resilient stocks in the market and CDC provides potential upside.

NZX Code	IFT	Financials: Mar/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$4.30	NPAT* (NZ\$m)	n/a	n/a	n/a	n/a	EV/EBITDA	n/a	n/a	n/a	n/a
Target price	NZ\$4.90	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	PE	n/a	n/a	n/a	n/a
Issued shares	659.7m	DPS (NZc)	17.3	15.3	15.5	16.5	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$2,837m	Imputation (%)	51	65	65	80	Cash div yld (%)	4.0	3.5	3.6	3.8
Avg daily turnover	650.5k (NZ\$3,048k)	*Based on normalised profits					Gross div yld (%)	4.8	4.4	4.5	5.0

Three investments showing strong immunity – Tilt Renewables (TLT), CDC Data Centres (CDC), Longroad Energy (LR)

TLT, CDC and LR should be largely immune to the economic effects of COVID-19. TLT has no exposure to electricity demand and limited exposure to Australian wholesale electricity prices. Today it announced it will be returning A\$260m to shareholders, IFT's share of which is ~NZ\$175m. CDC should benefit from increased data use post lock-down and in recent weeks the market has strongly endorsed NextDC, CDC's closest peer. LR today announced that it has moved to financial close on a new deal, indicating that the renewables market in the US is still open (although there may be some challenges ahead reducing development opportunities).

Two investments will perform well, but not completely immune – Trustpower (TPW), Vodafone (VOD)

Whilst TPW and VOD will perform well, both companies face some issues. Lower electricity demand will have a modest impact on TPW, and both VOD and TPW will likely have to deal with increased bad debts. VOD faces additional challenges as increased data use increases costs, but revenues are not increasing to the same degree. In addition, IFT indicated roaming revenue has dropped significantly, with an annualised impact of \$30m–\$50m (~10% of EBITDA). Whilst there are some near-term challenges, VOD should be a beneficiary from increased data/communication resilience that businesses will seek post lock-down. Nevertheless, the VOD commentary was the aspect of the trading update that was below our expectations.

Two investments facing challenges but should avoid intensive care – Wellington International Airport (WIAL), RetireAustralia (RA)

As discussed in our note *Defensive Portfolio Working Under Stress* (19 March 2020), WIAL and RA are the two investments most challenged by COVID-19. WIAL is hopeful it can avoid the need for shareholder support, but IFT has the capacity to support WIAL if needed. RA is focussed on keeping its residents and staff safe (as we'd expect), but faces a likely hit to resales. IFT is also prepared to support RA if needed.

FY20 guidance downgrade mainly due to LR accounting, dividend guidance also lower

IFT has downgraded the mid-point of its FY20 guidance -\$40m to \$555m. Most of the decline is due to LR accounting (~\$30m) and TPW's prior earnings downgrade (-\$17.5m). IFT has also indicated that it is likely to moderate its 11cps final dividend, but that it will still pay a "substantial proportion" of the 11cps. We have lowered our dividend forecast -2cps to 9cps.

Infratil (IFT)

Priced as at 08 Apr 2020 (NZ\$)

4.30

12-month target price (NZ\$)*	4.90	Spot valuations (NZ\$)										
Expected share price return	14.0%					1. NAV					5.62	
Net dividend yield	3.6%					2. n/a					n/a	
Estimated 12-month return	17.6%					3. n/a					n/a	
Key WACC assumptions						NAV valuation summary (NZ\$m)						
Risk free rate	n/a					Total firm value					5,472	
Equity beta	n/a					(Net debt)/cash					(1,766)	
WACC	n/a					Less: Capitalised operating leases						
Terminal growth	n/a					Value of equity					3,705	
Profit and Loss Account (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Valuation Ratios	2018A	2019A	2020E	2021E	2022E	
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 (%)	3.9	4.0	3.5	3.6	3.8	
Tax	n/a	n/a	n/a	n/a	n/a	Gross dividend yield (%)	5.4	4.8	4.4	4.5	5.0	
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	2018A	2019A	2020E	2021E	2022E	
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)	16.8	17.3	15.3	15.5	16.5	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a	
Growth Rates	2018A	2020E	2021E	2022E		Key Ratios	2018A	2019A	2020E	2021E	2022E	
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 (%)	6.3	3.0	-11.6	1.6	6.5	Capex to sales (%)	n/a	n/a	n/a	n/a	n/a	
Cash Flow (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a	
EBITDA	n/a	n/a	n/a	n/a	n/a	Imputation (%)	100	51	65	65	80	
Working capital change	n/a	n/a	n/a	n/a	n/a	Pay-out ratio (%)	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	NAV Calculation						
Operating cash flow	n/a	n/a	n/a	n/a	n/a	Investment	% Owned	Value \$m	% of IFT	Value/share		
Capital expenditure	n/a	n/a	n/a	n/a	n/a	Trustpower	50.5	1,210	20.2	1.83		
(Acquisitions)/divestments	n/a	n/a	n/a	n/a	n/a	Vodafone	49.9	1,060	17.7	1.61		
Other	n/a	n/a	n/a	n/a	n/a	CDC Data Centres	48.0	1,355	22.7	2.05		
Funding available/(required)	n/a	n/a	n/a	n/a	n/a	Wellington Intl Airport	66.0	650	10.9	0.99		
Dividends paid	n/a	n/a	n/a	n/a	n/a	Tilt Renewables	65.4	1,089	18.2	1.65		
Equity raised/(returned)	n/a	n/a	n/a	n/a	n/a	RetireAustralia	50.0	283	4.7	0.43		
(Increase)/decrease in net debt	n/a	n/a	n/a	n/a	n/a	Longroad Energy	40.0	140	2.3	0.21		
						Property/Other	100.0	190	3.2	0.29		
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E	Less : Present value of mgmt contract		(505)		(0.77)		
Working capital	n/a	n/a	n/a	n/a	n/a	Total Assets		5,472		8.29		
Fixed assets	n/a	n/a	n/a	n/a	n/a	Less : Bank debt		(473)		(0.72)		
Intangibles	n/a	n/a	n/a	n/a	n/a	Less : Infrastructure & Perp Bonds		(1,293)		(1.96)		
Right of use asset	n/a	n/a	n/a	n/a	n/a	Net Assets		3,705		5.62		
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

Net asset value changes

We have lowered our NAV assessment -2cps to \$5.62. There are four changes we have made to our last update:

- Lowered our Vodafone valuation slightly due to likely FY21 earnings headwinds from reduced roaming charges
- Increased our CDC valuation in light of NextDC's (NXT) performance and strong support for its capital raise. In our view CDC is a better and more defensive business than NXT
- Increased the performance fee assumption to \$125m, in line with IFT guidance. We had previously assumed that the negative market reaction to COVID-19 would impact on the performance fee. However, since our most recent IFT report dated 19 March, NXT has performed particularly well, offsetting the downside risk to aged care valuations
- Updated for the latest NZDAUD and NZDUSD fx rates

Figure 1.

Net asset value changes

	Old \$m	New \$m	Change \$m Chg	Old \$/share	New \$/share	Change \$/share	% chg
Trustpower	1,210	1,210	-	\$1.83	\$1.83	\$0.00	0%
Vodafone NZ	1,136	1,060	(76)	\$1.72	\$1.61	-\$0.11	-7%
CDC Data Centres	1,240	1,355	116	\$1.88	\$2.05	\$0.18	9%
Wellington Airport	650	650	-	\$0.99	\$0.99	\$0.00	0%
Tilt Renewables	1,089	1,089	-	\$1.65	\$1.65	\$0.00	0%
RetireAustralia	276	283	7	\$0.42	\$0.43	\$0.01	2%
Longroad Energy	141	140	(1)	\$0.21	\$0.21	\$0.00	0%
Other	190	190	-	\$0.29	\$0.29	\$0.00	0%
Total Assets	5,930	5,977	46	\$8.99	\$9.06	\$0.07	1%
less PV of corporate costs	(444)	(505)	(61)	-\$0.67	-\$0.77	-\$0.09	14%
less Net debt	(1,766)	(1,766)	-	-\$2.68	-\$2.68	\$0.00	0%
Net Assets	3,720	3,705	(15)	\$5.64	\$5.62	-\$0.02	0%

Source: Forsyth Barr analysis

Investment Summary

Our rating is **OUTPERFORM**. Infratil (IFT) has a solid core of investments that will perform well in the expected economic downturn and should also perform well in the long-term low interest rate environment that is expected to follow the post-COVID-19 economic downturn. Near-term operational upside comes from CDC.

Business quality

- **Chasing low risk, high growth assets:** IFT's strategy is to invest in infrastructure-like assets that exhibit strong underlying demand. Recent investments include Vodafone (mobile data), CDC (data centres), and Longroad Energy (renewable electricity generation projects).
- **Strong track record over the past decade:** IFT's recent track record buying and selling assets is strong, having crystallised significant gains with Z Energy, Lumo Energy and ANU Student Accommodation. In addition, new investment CDC is performing well.
- **Diversified risk:** Key sectors in IFT's asset portfolio are data/telco (~40%), renewable electricity (~40%) and airports (~10%). Its largest assets are CDC, Trustpower and Vodafone, each at ~20% of its portfolio. Assets are also diversified across New Zealand, Australia and North America.

Earnings and cashflow outlook

- **Growth coming from new investments:** Most of IFT's earnings growth is expected to come from its newer investments: Vodafone NZ, CDC, Longroad Energy, and Tilt Renewables developing new wind farms.

Financial structure

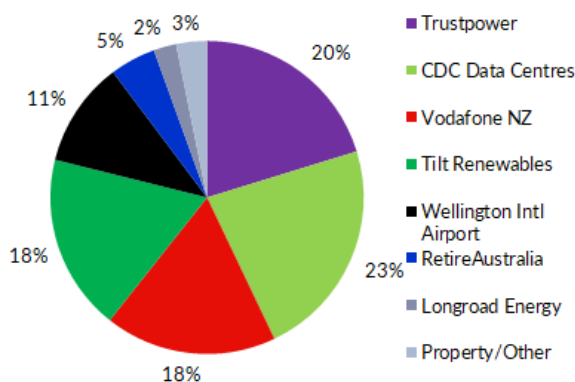
- **Balance sheet under pressure, but not close to breaking:** The current COVID-19 crisis and flow-on effect is putting significant pressure on Wellington Airport in particular. However, we believe IFT has sufficient spare capacity to ride through the downturn, something it achieved during the GFC relatively comfortably.
- **Strong historic dividend growth:** IFT has increased dividends +13% p.a. over the past eight years. Future growth is expected to be tempered as IFT's portfolio shifts towards high growth but more capital hungry assets.

Risk factors

- **Valuation transparency:** IFT favours investments in unlisted assets. It can be difficult to get a clear view on the value of the unlisted assets and this is a factor in IFT trading at a discount to NAV. An investment in IFT is backing the management team to deliver results similar to its track record.
- **Governance:** IFT manager, Morrison & Co, has several investment mandates outside IFT, potentially resulting in competition for investment opportunities. Governance is important to ensure IFT is not disadvantaged.

Figure 2.

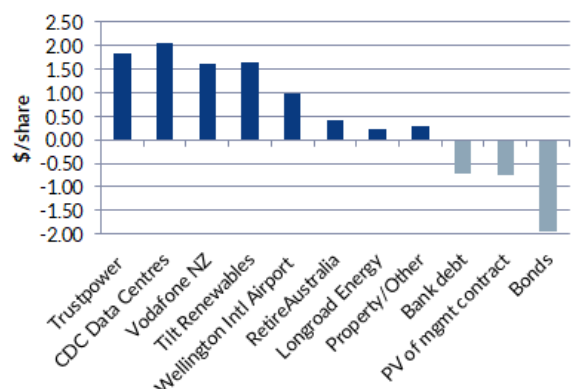
Net asset value breakdown



Source: Forsyth Barr analysis

Figure 3.

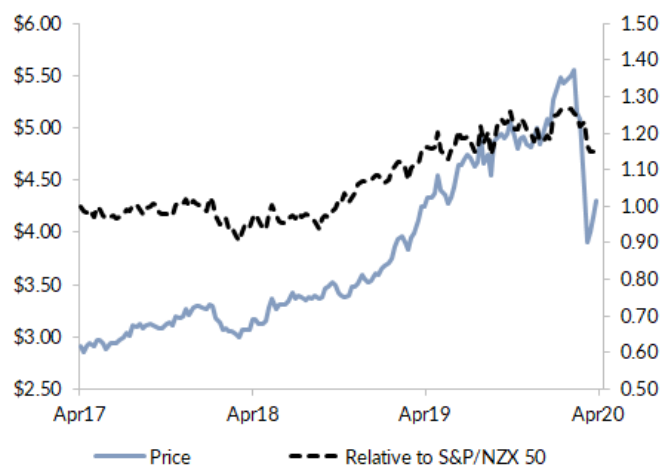
Net asset value per share



Source: Forsyth Barr analysis

Figure 4.

Price performance



Source: Eikon, Forsyth Barr analysis

Figure 5.

Substantial shareholders

Shareholder	Latest Holding
ACC	6.1%

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

Figure 6.

International valuation comparisons

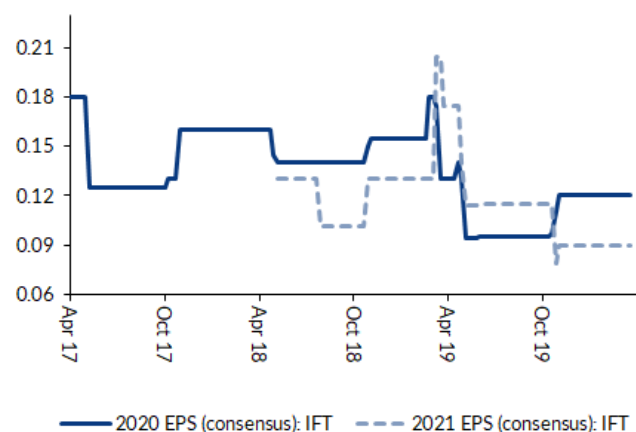
Company	Code	Price	Mkt Cap (m)	PE 2020E	PE 2021E	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBIT 2020E	EV/EBIT 2021E	Cash Yld 2021E
Infratil	IFT NZ	NZ\$4.30	NZ\$2,837	n/a	n/a	n/a	n/a	n/a	n/a	3.6%
Compco Average:				n/a	n/a	n/a	n/a	n/a	n/a	n/a
IFT Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

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.

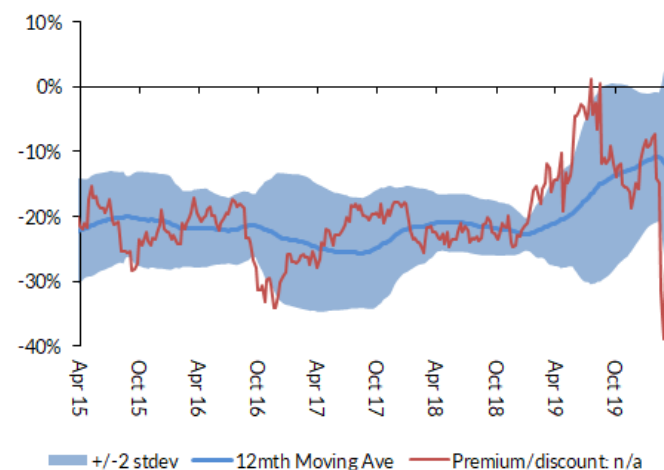
Consensus EPS momentum (NZ\$)



Source: Eikon, Forsyth Barr analysis

Figure 8.

Discount to NAV



Source: Eikon, Forsyth Barr analysis

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