

Infratil

1H21 Result — Value In, Cash Out

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NEUTRAL

We walk away with three main takeaways from IFT's 1H21 result; (1) Vodafone, after various adjustments, experienced a modest organic decline in EBITDAF — even if we add back the guided direct impact of COVID-19; (2) management appears comfortable with current leverage levels and view "ad-hoc" cash injection from Longroad/other and/or asset sales to likely be sufficient to cover cash needs; (3) CDC continues to be the main driver of net asset value growth, but is also likely to drive continued performance fees. We make numerous minor asset value adjustments and move Wellington Airport (WIA), CDC and Vodafone NZ to a peers based market multiple approach. Our target price increases by 5cps to NZ\$6.00.

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\$6.00	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	640.8k (NZ\$3,109k)	*Based on normalised profits					Gross div yld (%)	3.9	3.9	3.9	3.9

CDC and Vodafone the key drivers of value creation (or not) at IFT

CDC and Vodafone NZ make up ~50% our estimate of IFT's gross asset value but c.80% of its net asset value. Performance of IFT's shares from here is likely largely dependent on these two un-listed assets. The 1H21 result re-affirmed what has been clear for sometime; Vodafone NZ faces a long road ahead to approach Spark's profitability and so far it has little to show. After adjusting for many moving parts, we arrive at a guided organic FY21 EBITDAF decline of c.-3% for Vodafone NZ, excluding COVID-19 impacts (~17% including COVID-19 impacts). CDC delivered EBITDA growth of 44% vs pcp. This was in-line with guidance, however, it is still a very strong result. Importantly, CDC continues to predictably deliver on its growth pathway, set out several years ago. This suggests the 25% p.a. EBITDA growth that CDC management "expects to continue" is realistic, particularly in light of the current development pipeline of ~300MW, more than 2x its current installed base.

Leverage is high; increased risks but also increased opportunities

Of IFT's main five assets, four are now relatively highly levered at the portfolio level. Both CDC and WIA (FY23) have net debt/EBITDA >6x on our estimates and Trustpower (TPW) and Vodafone NZ have net debt/EBITDA of >3x. IFT owns these levered assets with a ~30% gearing and we estimate that look through net debt/EBITDA is around 7x for the structure as a whole. This is not necessarily a negative but it increases the need for flawless execution, active cash management and open debt and equity markets. IFT has proven themselves to be a good buyer of assets, but in particular a good seller of assets. Going forward we believe that it is likely that we will see further capital increases should WIA or any other portfolio company need an equity injection, a generally higher asset velocity in the portfolio and a higher beta of IFT's share price.

Performance fees here to stay, hopefully

IFT accrued a further NZ\$58m of performance fees in 1H21, the majority related to yet another re-valuation of CDC. If CDC continues on its 25% p.a. EBITDA growth trajectory, and with no obvious end point for the valuers to work off, we would expect that the valuer will acknowledge the growth delivered and potentially add ~25%, to CDC's EV each year. On our estimates this translates to an annual performance fee of ~NZ\$60m–NZ\$70m p.a.

Infratil (IFT)

Priced as at 12 Nov 2020 (NZ\$)

5.40

12-month target price (NZ\$)*

6.00

Expected share price return

11.1%

Net dividend yield

3.2%

Estimated 12-month return

14.3%

Spot valuations (NZ\$)

1. NAV

6.00

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

7,388

(Net debt)/cash

(2,626)

Less: Capitalised operating leases

Value of equity

4,763

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	Value/		
Capital expenditure	n/a	n/a	n/a	n/a	n/a			\$m	share		
(Acquisitions)/divestments	n/a	n/a	n/a	n/a	n/a	Trustpower	51%	1,200	1.7		
Other	n/a	n/a	n/a	n/a	n/a	Vodafone	50%	1,328	1.8		
Funding available/(required)	n/a	n/a	n/a	n/a	n/a	CDC Data Centres	48%	2,318	3.2		
Dividends paid	n/a	n/a	n/a	n/a	n/a	Wellington Intl Airport	66%	872	1.2		
Equity raised/(returned)	n/a	n/a	n/a	n/a	n/a	Tilt Renewables	65%	986	1.4		
(Increase)/decrease in net debt	n/a	n/a	n/a	n/a	n/a	RetireAustralia	50%	274	0.4		
						Longroad Energy	40%	200	0.3		
						Other	100%	211	0.3		
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Total Assets		7,388	10.2		
Working capital	n/a	n/a	n/a	n/a	n/a	Less : PV of corporate costs		(643)	(0.9)		
Fixed assets	n/a	n/a	n/a	n/a	n/a	Less : PV of expected 5Y performance fees		(400)	(0.6)		
Intangibles	n/a	n/a	n/a	n/a	n/a	Less : Bank debt		(279)	(0.4)		
Right of use asset	n/a	n/a	n/a	n/a	n/a	Less : Infrastructure & Perp Bonds		(1,304)	(1.8)		
Other assets	n/a	n/a	n/a	n/a	n/a	Net Assets		4,763	6.6		
Total funds employed	n/a	n/a	n/a	n/a	n/a	NAV discount		10%	10%		
Net debt/(cash)	n/a	n/a	n/a	n/a	n/a	IFT target price		4,330	6.0		
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. Underlying EBITDAF result summary (NZ\$m)

	1H20	1H21	YoY	FB FY21E	FY21 Guidance
Trustpower (51%)	55	56	3%	99	94-105
Tilt (65%)	49	22	-55%	51	46-56
WIA (66%)	33	7	-78%	26	17-20
CDC (48%)	26	38	44%	78	75-80
Vodafone (50%) – 1H20 FB pro forma estimate	117	112	-4%	219	213-228
Core portfolio underlying EBITDAF	280	236	-16%	474	466
Longroad (40%)	16	9	-41%	20	n/a
Retire Australia (50% of EBITDA, from FY21)	3	5	96%	5	n/a
Corporate and other	(17)	(21)	24%	(46)	n/a
Underlying EBITDAF excluding incentive fees	282	230	-19%	453	430-470

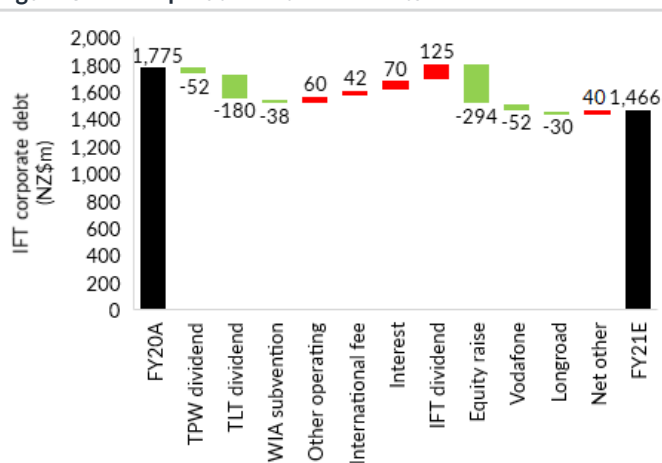
Source: Forsyth Barr analysis, Company reports

Figure 2. Vodafone EBITDAF breakdown (NZ\$m)

	FY20	FY21E	YoY
Reported	482	440	-9%
Acquisition costs and other one off items	~40	0	
Underlying EBITDAF	522	440	-16%
IFRS-16 impacts	~55	(55)	
Underlying EBITDAF pre IFRS-16	467	385	-18%
COVID-19 adjustment	0	68	
COVID-19 adjusted EBITDAF	467	452	-3%

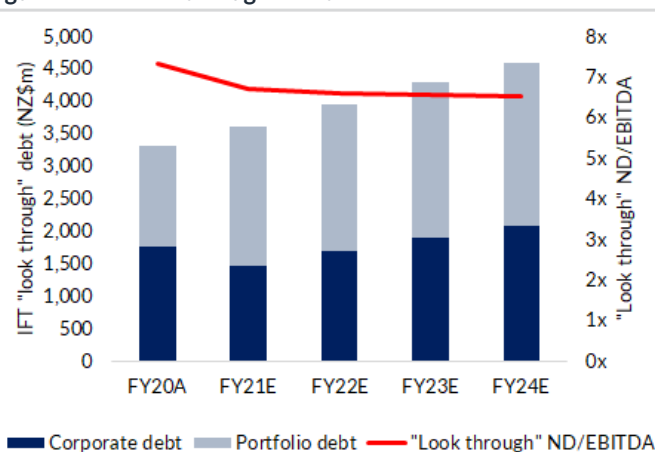
Source: Forsyth Barr analysis, Company reports

Figure 3. IFT corporate debt movements



Source: Forsyth Barr analysis, Company reports

Figure 4. IFT "look through" debt

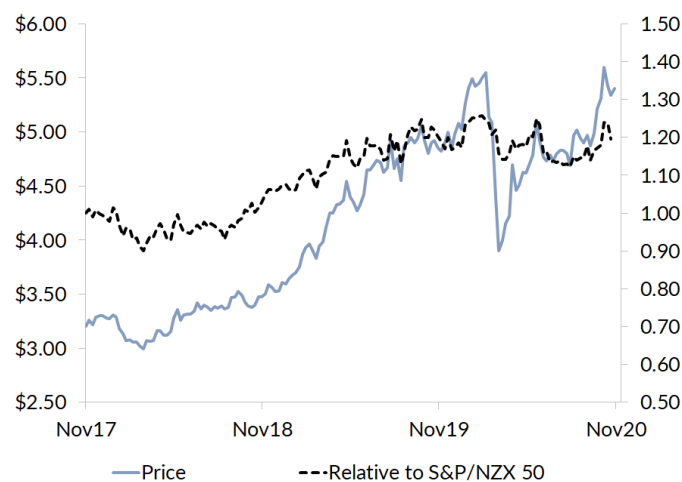


Source: Forsyth Barr analysis, Company reports

Figure 5. Proportionate EBITDAF forecasts (NZ\$m)

	FY20 FB est	FY21E	FY22E	FY23E
Trustpower (51%)	95	99	97	94
Tilt (65%)	80	51	74	72
WIA (66%)	68	26	49	64
CDC (48%)	60	78	98	125
Vodafone (50%)	240	219	241	261
Longroad Energy (40%)	5	20	25	30
Retire Australia (50%)	4	5	7	10
Corporate and other	-36	-46	-52	-56
Underlying EBITDAF excluding incentive fees	516	453	538	601
International portfolio incentive fee	-125	-88	-62	-77
Underlying EBITDAF from continuing operations (pro forma)	391	366	476	523

Source: Forsyth Barr analysis. NB FY20 numbers represent Forsyth Barr's pro-forma estimates under IFT's new reporting structure

Figure 6. Price performance


Source: Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
ACC	6.1%
Fisher Funds Management	5.0%

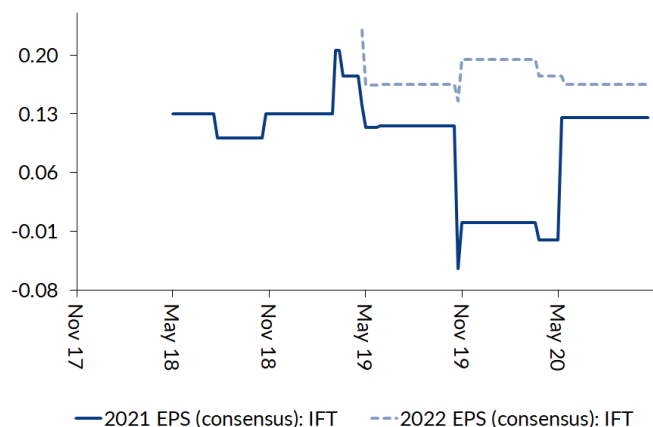
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

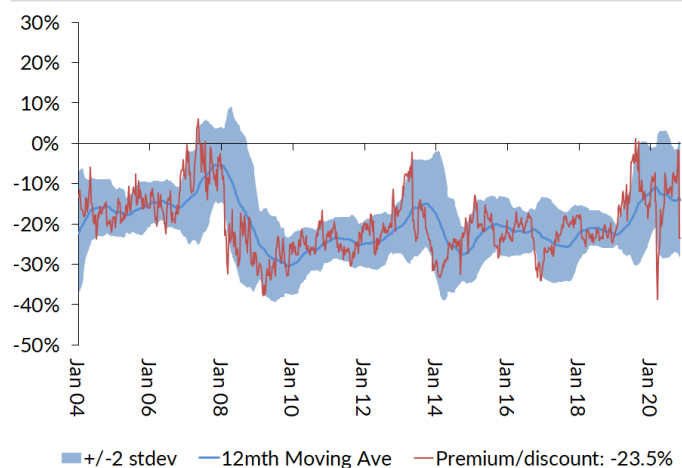
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
Infratil	IFT NZ	NZ\$5.40	NZ\$3,902	n/a	n/a	n/a	n/a	n/a	n/a	3.2%
Compco Average:				n/a	n/a	n/a	n/a	n/a	n/a	n/a
IFT Relative:				n/a	n/a	n/a	n/a	n/a	n/a	n/a

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 9. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 10. Historic discount to NAV


Source: Forsyth Barr analysis

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