



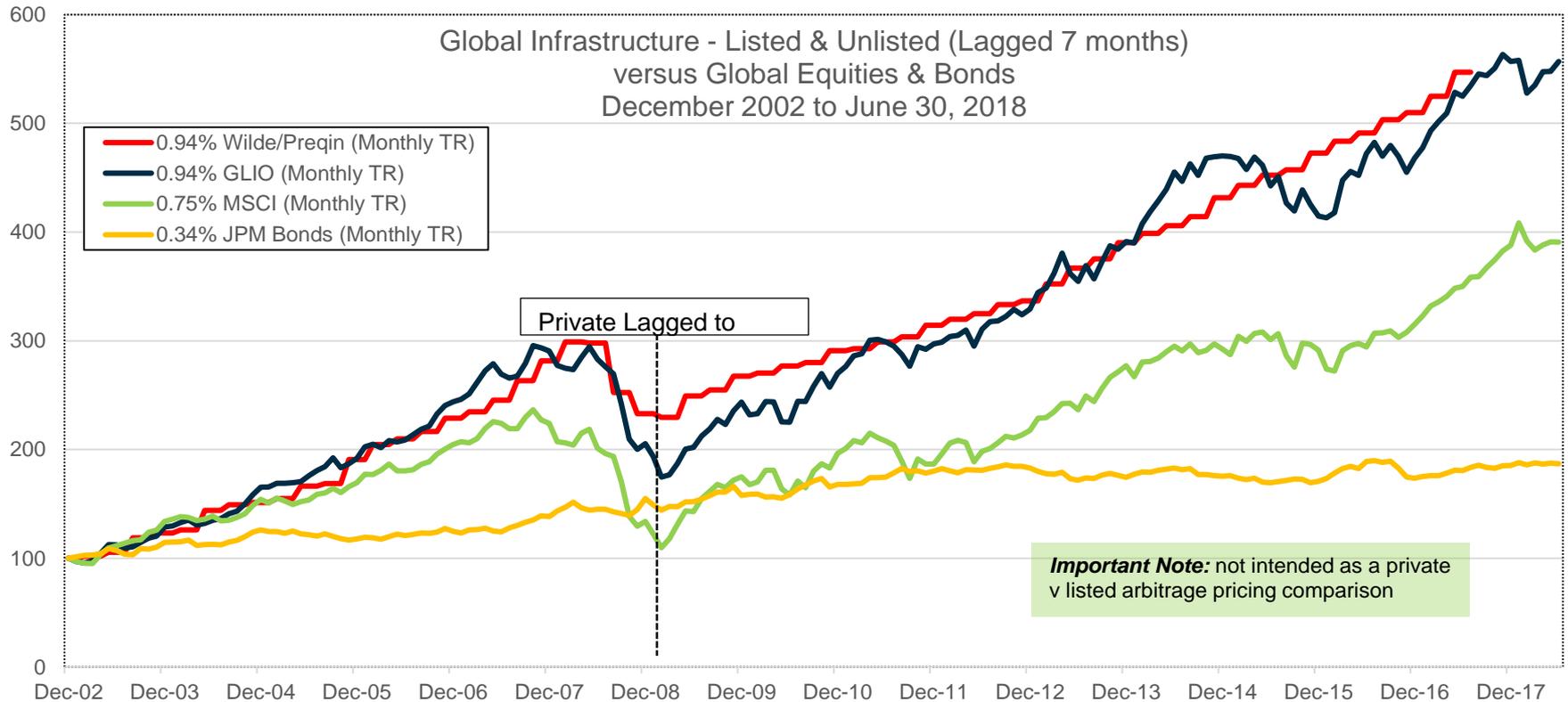
# LISTED INFRASTRUCTURE

GLIO, March 2019

RARE Infrastructure Limited  
ABN 84 119 339 052 AFSL 307727

# Listed vs unlisted infrastructure returns

Long term equity returns; investment horizons important



Source

Global Listed Infrastructure Organisation (GLIO)

Listed market indices as at 30 June 2018. Unlisted Infrastructure Wilde/Prequin index is as at 31 December 2017 then lagged 7 months to align the low point in unlisted markets to listed markets to account for valuation lags

# The infrastructure opportunity set

## Listed & unlisted allocations should be complimentary

Investable market (USDbn)	North America		Europe		Asia Pac		Developing		Totals	
	Unlisted Market	Listed Market								
Power	73		57		37		121		288	
Energy (E&P)	97		31		3		78		208	
Logistics	6		26		8		5		45	
Communications	4		33		5		45		87	
Network Communications	8	181	8	36	3	4	7		26	221
Electric Utilities	47	1,254	50	369	20	142	11	413	128	2,178
Gas Utilities / Pipelines	89	501	41	95	20	36	39	32	189	664
Water Utilities	10	43	10	86	3		10	42	33	171
Toll Roads	53		48	129	21	33	78	47	199	209
Airports	12		29	98	4	24	23	64	68	186
Rail	23	360	29	12	15	166	52	26	119	564
Sea Ports	2	1	10	2	21	8	17	65	50	76
Social	27		43		17		19		107	
Renewable Energy	54		155		32		111		352	
Waste	3		20		3		6		33	
<b>Total (Infrastructure)</b>	<b>508</b>	<b>2,340</b>	<b>591</b>	<b>826</b>	<b>212</b>	<b>413</b>	<b>621</b>	<b>690</b>	<b>1,933</b>	<b>4,270</b>

Source

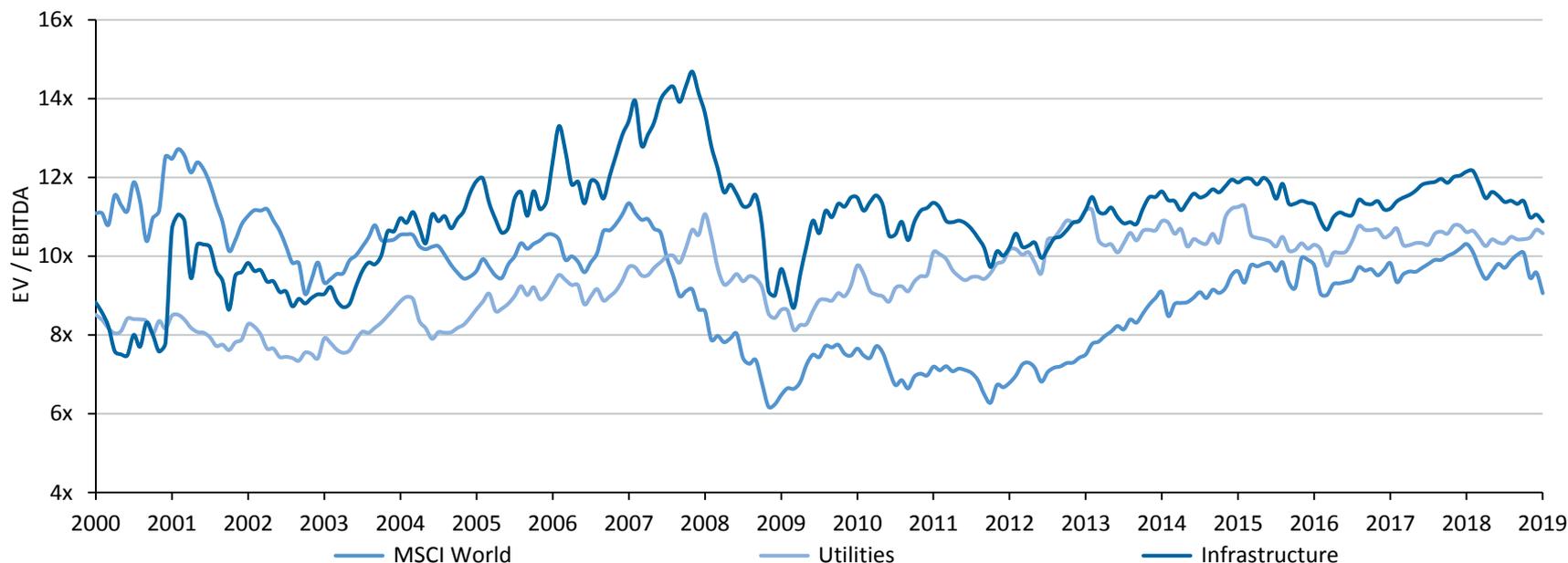
As at 31 December 2018

FactSet Research Systems, Preqin (last 10 years of transactions, duplicates removed) and RARE calculations.

# Utility vs Infrastructure consensus EV / EBITDA

## Listed infrastructure valuations have been range bound

EV / EBITDA - Historical trend using FY1 EBITDA



Source

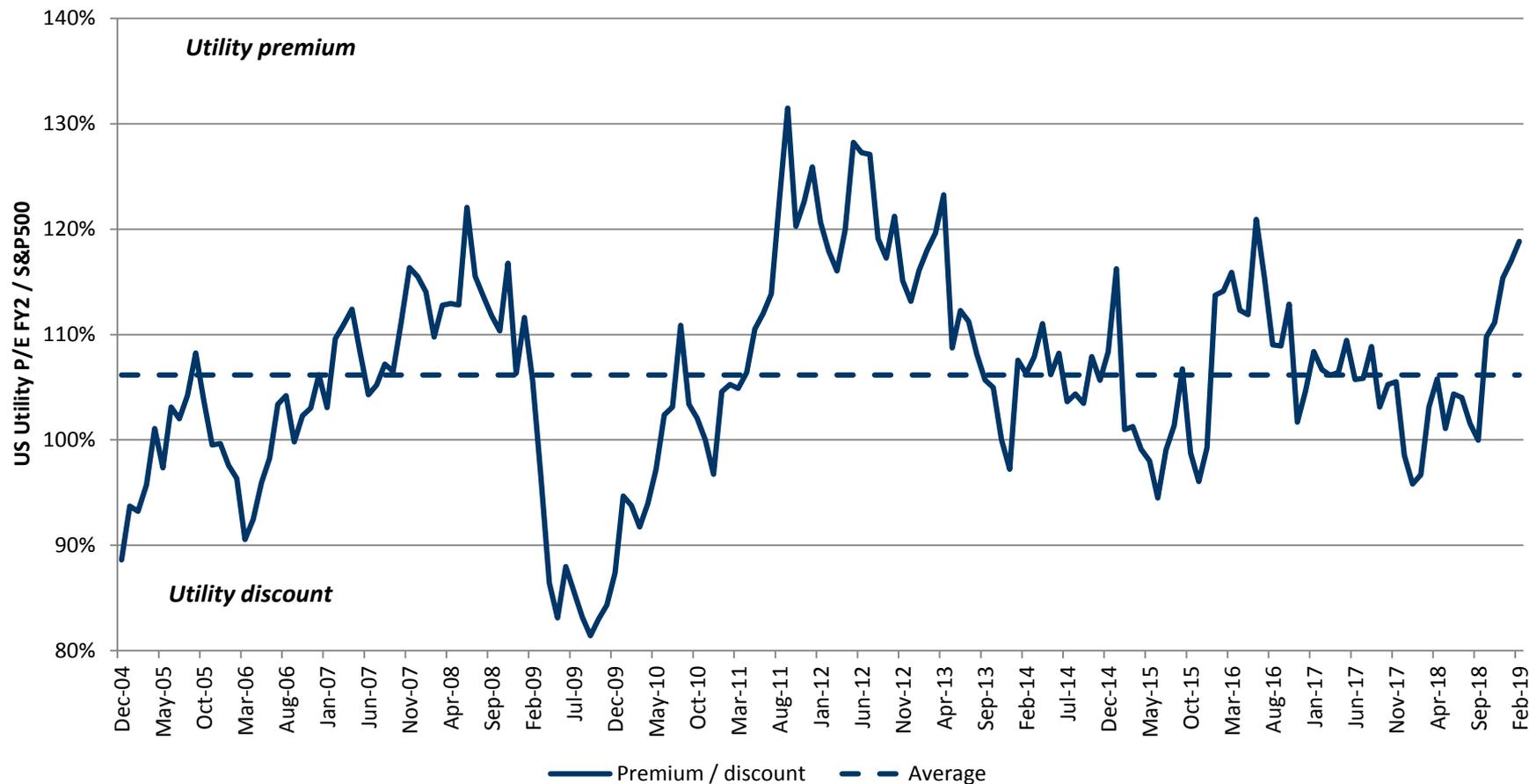
As at 31 December 2018. FactSet Research Systems and RARE calculations.

Arithmetic average, current EV divided forward consensus EBITDA, EV = Market Cap + Net Debt + Minority Interest and Preferred Stock.

Past performance is not an indicator of future performance.

# But care needs to be taken with exposure

## US Utility premium/discount to S&P500



# Near term issue #1

## Europe & Brexit



**BASE CASE**

**DOWNSIDE**

	Potential 2019/20 Development	Market impacts	Infrastructure positioning
<b>BASE CASE</b>	<ul style="list-style-type: none"> <li>Orderly transition for key industries:                             <ul style="list-style-type: none"> <li>Passporting and grandfathering for finance.</li> <li>Time for border processes and procedures to be put in place.</li> </ul> </li> <li>EU economy resumes trend growth and global trade not materially impacted by US-China.</li> <li>Italian budget outcomes continue to constrain Italy and doesn't result in significant deficit.</li> </ul>	<ul style="list-style-type: none"> <li>EU growth likely above expectations, generating "upside surprise" in market.</li> <li>UK relief rally, rotation from defensives to growth exposures.</li> </ul>	<ul style="list-style-type: none"> <li>Hold UK defensive utilities and EU infrastructure going into 2019.</li> </ul>
<b>DOWNSIDE</b>	<ul style="list-style-type: none"> <li>EU takes aggressive stance against UK in Brexit final agreement and/or Italy in budget negotiations.</li> <li>Growth remains below trend resulting in ECB stuck in QE.</li> <li>Global trade system breakdown.</li> </ul>	<ul style="list-style-type: none"> <li>EU financials hit again on debt/capital concerns related to slowdown and Italy.</li> <li>UK has major slowdown and economic disruption.</li> </ul>	<ul style="list-style-type: none"> <li>Reduce exposure to EU generally and rotate toward defensives (large cap regulated utilities).</li> <li>Continue with UK defensive holdings.</li> </ul>

# Near term issue #2

## US / China Trade War

US/China cease  
fire and  
framework for  
discussions

**BASE CASE**

### Potential H1'19 Development

- ◆ Drip feed of incremental good news.
- ◆ Ultimate 'deal', but not much change (similar to NAFTA 2.0).

### Market impacts

- ◆ Steady upwards revisions to corporate earnings
- ◆ Supportive environment for equities.
- ◆ Focus back on cycle and central banks.

### Infrastructure positioning

- ◆ Hold economically sensitive stocks going into 2019.
- ◆ Progressively sell down to hold defensive utilities by late 2019, into 2020.

**DOWNSIDE**

- ◆ No deal reached
- OR**
- ◆ Tariffs increased and 'discussions' drag on too long.
  - ◆ Corporate credit stress in China (slow down in economy) and/or US (re-engineering of supply chains)

- ◆ 'Wall of worry'.
- ◆ Credit spreads blow out.
- ◆ Equity correction turns to bear market.

- ◆ Hold defensive utilities going into 2019.
- ◆ Add economically sensitive assets as the cycle troughs.

# Medium-to-longer term considerations

## Liquidity will be key to navigating the pace and direction of change

Sector	Key disruption	Opportunities	Risks	Exposure Rating	Overall Impact	Model Impacts
<b>Electricity Distribution</b>	Battery storage, renewables, electric vehicles	Increased capex	Grid defection	Med	↑	Energy mix -> capex / volumes
<b>Pipelines</b>	Decarbonisation (electric vehicles)	Gas fired electricity	Reduced oil and gas demand	High	↓	Lower growth
<b>Water Utilities</b>	None	Increased capex	No material risks	Low	↑	Higher RAB growth
<b>Rails</b>	Autonomous vehicles	Truck electronic logging devices	Energy volumes Autonomous trucks	Low-Med	↘	Lower volume growth, pricing
<b>Toll Roads</b>	Autonomous vehicles	Increased trips/kms	Free alternative capacity; lower value of time; ride-sharing	Med	↗	Higher volume growth; lower capex
<b>Airports</b>	Airfares, internet shopping, autonomous vehicles	Lower cost to travel stimulating demand	Retail price competition; car parking; climate change	Low-Med	→	Lower passenger growth for hub airports; lower capex
<b>Towers</b>	Small cells	Diversification to small cells; data growth	Substitution by other networks (e.g. small cells, Internet of things)	Med	↘	Lower growth and amendment revenues
<b>Satellites</b>	HTS; terrestrial communications	Limited; lower capex, capacity improvements; data growth	Pricing pressure & market share reductions	High	↓	Lower volume and pricing

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