The $150B Backlog Supporting Listed Infrastructure Valuations

Demand for infrastructure investment seems to have overwhelmed the private market's ability to find suitable opportunities, with increased competition for assets pushing transaction multiples higher and creating a record backlog of capital waiting to be deployed. While this may be a challenge for private fund managers, we see it as a boon for listed infrastructure companies, serving as a rising floor of support for valuations and a potential driver of future returns.

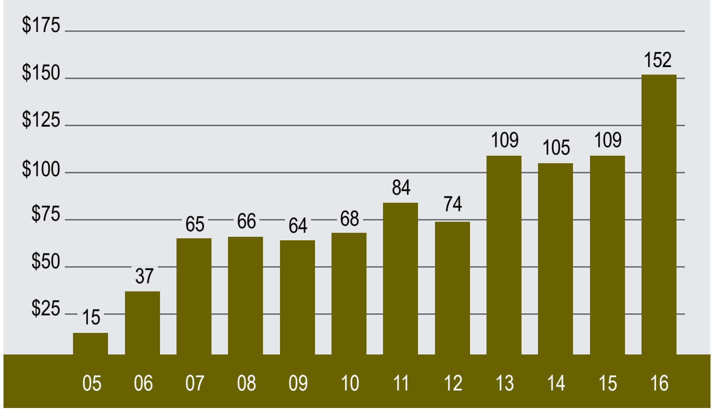
Unprecedented Demand, Limited Targets

Infrastructure as an asset class has seen enormous inflows in recent years, attracting investors with the prospect of predictable income, attractive risk-adjusted returns and the inflation-fighting characteristics of tangible assets. The asset class has also gained attention amid growing government support for private ownership of infrastructure assets, seen as a way to fulfill the massive need for increased investment at a lower cost and risk to the public.

The story has been an easy sell for managers of private infrastructure funds, who have raised record levels of capital from institutions and wealthy families. Yet many of these managers are finding it easier to raise money for an idea than to put it to work.

According to market intelligence firm Preqin, uninvested capital in private infrastructure funds hit a record $152 billion at the end of 2016 (Exhibit 1). And estimates through September suggest even more dry power is now ready for placement. The reason for this high and rising backlog is that despite the immense need for capital over the coming decades, there are a limited number of investable opportunities at any point in time, given the many political, regulatory and financing considerations in such deals. In an increasingly competitive market, private fund managers have had difficulty securing suitable investments offering sufficient expected returns.

Exhibit 1: Private Infrastructure Dry Powder
$Billions of Uninvested Capital Commitments



At September 30, 2017. Source: Preqin.

There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. Uninvested capital commitments are the amount of capital that has been committed to private equity funds minus the amount that have been called by the general partner for investment.

Private Assets Commanding High Premiums

Exhibit 2 shows a representative list of private transactions based on available data. When private investments have been made, transactions have generally occurred at significant premiums to the market-implied cash flow multiples of listed infrastructure companies.

In other words, investors are typically able to access the cash flows of infrastructure assets at much lower multiples by investing in listed infrastructure equities, rather than buying assets directly. The premiums for private transactions are somewhat justified, in that private deals often give the buyer direct ownership of an asset. However, we believe the recent multiples paid far exceed the return potential for this advantage.

For example, Allianz Capital Partners and Canada Pension Plan Investment Board's recently announced agreement to secure a 20% interest in Gas Natural Fenosa's gas distribution business in Spain for an EV/EBITDA of 15.7—more than 36% above the average for listed stocks in the gas sector.

Strong demand from private infrastructure investors and a limited number of desirable investment opportunities have led to a record level of dry powder.

Exhibit 2: Recent Select Private Transactions vs. Listed Valuations

Asset	Country	Buyer	Year	EV/ EBITDA	EV/EBITDA 5-Year Range
Airports					
AIX	Australia	Future Fund	2013	15.3	
OHL Mexico	Mexico	IFM Investors	2017	13.0	
Toulouse airport	France	Chinese Consortium	2014	19.5	
Vienna airport	Austria	IFM Investors	2014	9.5	
Listed airport average				**13.8**	**9.4–14.3**
Gas Distribution					
Gas Natural Fenosa's Gas Distribution Assets	Spain	Allianz, CPPIB	2017	15.7	
U.K. Gas Distribution Network	U.K.	Consortium	2016	12.0	
Listed gas distribution average				**11.5**	**7.2–11.5**
Toll Roads					
A6 Autoroute	France	APRR	2016	26.8	
Chicago Skyway	U.S.	Calumet Concession Partners	2015	31.0	
Indiana Toll	U.S.	IFM Investors	2015	32.0	
La Serena-Vallenar Highway	Chile	Toesca Infraestructura	2017	19.0	
Listed toll road average				**11.0**	**9.9–11.8**
Private equity average				**19.4**	
Global listed infrastructure average				**11.3**	**9.3–11.5**

At September 30, 2017. Source: Preqin, Goldman Sachs, Bloomberg and Cohen & Steers.

There is no guarantee that any historical trend illustrated above will be repeated in the future, and there is no way to predict precisely when such a trend will begin. The mention of specific sectors is not a recommendation or solicitation to buy, sell or hold any particular security and should not be relied upon as investment advice. EV/EBITDA refers to the ratio of enterprise value to earnings before interest, taxes, depreciation, and amortization using current fiscal year estimates. The information above does not reflect information about any fund or account managed or serviced by Cohen & Steers, and there is no guarantee investors will experience the type of performance reflected above. See below for additional disclosures.

Why Does This Matter for Listed Infrastructure?

Competition among private equity managers looking to deploy the accumulated $150+ billion in dry powder puts increasing pressure on return expectations for private infrastructure. As a result, we have observed more institutions looking to listed infrastructure strategies as a complement to private investments. Indeed, a leading private equity firm recently announced that investing in listed companies was a top priority for its new $100 billion infrastructure business.

Even as earnings and cash flow multiples for listed infrastructure are generally above their historical averages, we see the backlog of capital and private transaction pricing benefiting listed valuations in two ways:

- As private funds pay premium prices for assets—whether in the private market or from listed companies—the higher valuations for those investments may provide an uplift to listed company assets.
- Listed companies have also been highlighted as potential take-out targets, creating the prospect for additional value to be realized.

Listed infrastructure companies own and operate the same types of long-lived assets as those held in private investments. And unlike in the private market, investors can implement an allocation immediately due to the liquidity of public markets, with over 200 companies in the FTSE Global Core Infrastructure 50/50 Index, representing a total market capitalization of more than $2.4 trillion.

We believe a listed infrastructure allocation can offer a liquid alternative or complement to private investments at more attractive valuations, allowing investors to maintain their long-term return objectives while reducing volatility relative to equities and adding downside resilience to a diversified portfolio.

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