Kempen Global Listed Infrastructure

FEBRUARY 2021

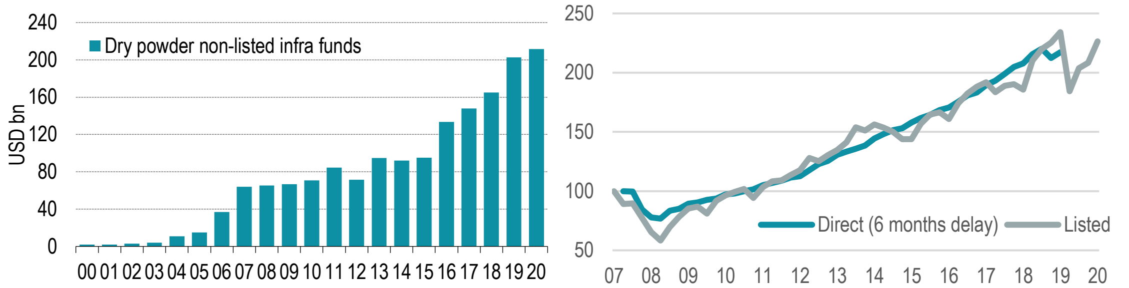
HIDDEN IN PLAIN SIGHT

Infrastructure assets are in vogue: Duke Energy partners sold a minority interest in Duke Energy Indiana at a premium to GIC. IFM offers EUR 5bn for 23% stake in Naturgy Energy at a 20% premium to latest share price. These are just two of the deals that were announced in the first month of the year. Evidently, the lower cost of capital and wall of money have pushed up valuations in the private market - well ahead of the listed market.

Pricing in the direct market is still robust, supported by a switch in asset allocation (of pension and insurance companies) to yielding assets. The 'wall of money' has intensified competition for infrastructure assets. More than USD 200bn of committed capital is waiting, according to Preqin, to be employed by direct infrastructure funds.

Although the listed market enjoyed the benefits of falling interest rates and QE the last decade, the pandemic dragged down infrastructure shares last year. The listed market recovered from its low in March last year, yet is still down YoY. As such, the valuation gap widened further as pricing in the direct market remained more robust.

Figure 1: Dry powder of non-listed infra funds (LHS) and performance of listed vs. non-listed infra (index, Dec-2007 = 100, RHS)



Source: Kempen, Preqin, Factset, Jan-21

EXPLOITING THE ARBITRAGE

Even adjusting for a control premium, which should be reduced given increased shareholder activism in the listed market, and more aggressive financing structure, the spread between the listed and non-listed market is difficult to explain. Management teams might not be comfortable with the current high prices observed in the market and as such acquisitions could be out of the question. A high price environment, however, is conducive to portfolio rationalisation and management teams should use this opportunity to do just that, in our view. Could American Electric Power do a similar deals as Duke Energy?

The lack of investment opportunities as well as the discrepancies between listed and non-listed could push more investors into the listed infrastructure market - or at least have dual allocation - as seen with IFM. We believe listed and non-listed infrastructure should be considered equally and as a single asset class - not split by how equity is acquired. In keeping with this, more strategic investors are likely to enter the listed market, in our view. Taking a longer-term view, we believe the current share price could offer interesting opportunities. What is more, as the listed infrastructure managers (with c.EUR 100bn AuM) hold just c.5% of listed infrastructure market, there is ample opportunity to invest (part of) the USD 212bn dry power of unlisted funds.

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