AIR
VALUATIONS

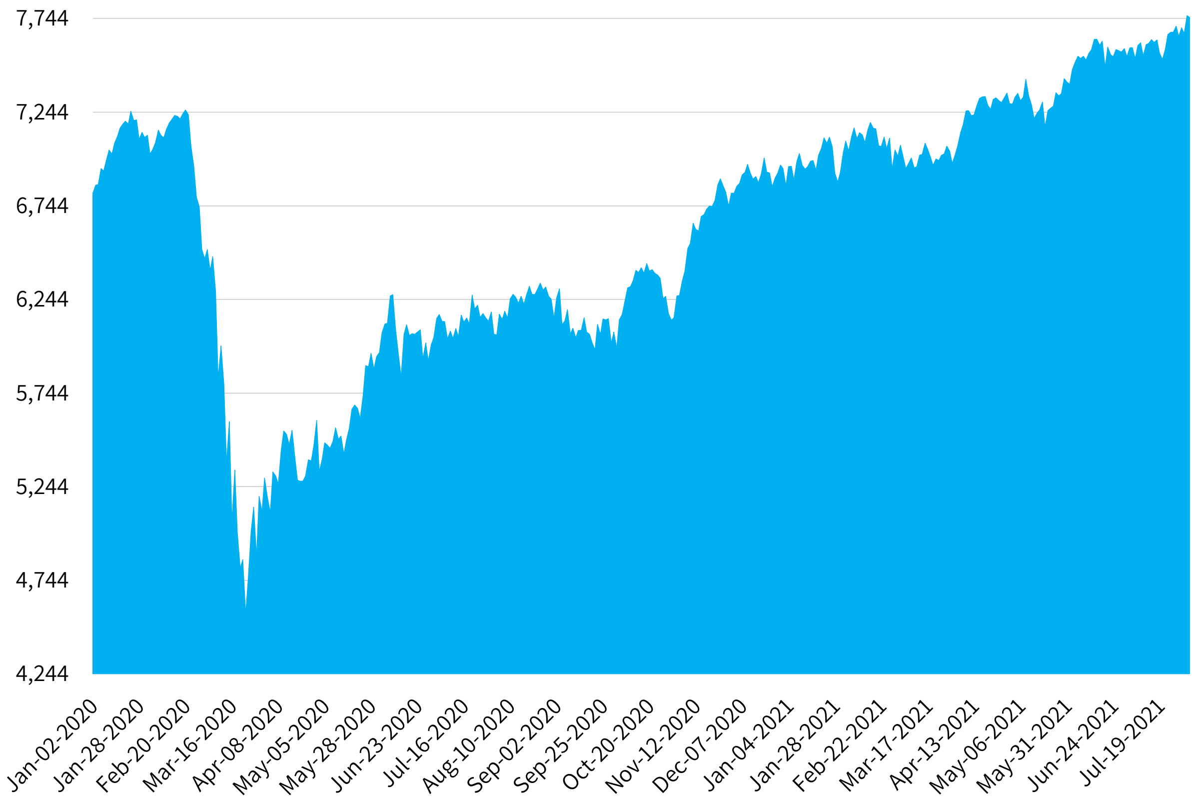
Market Update

August 2021

How the listed (primarily) Australian infrastructure market has changed between January 2020 and August 2021

Economic recovery is underway, the Delta variant of COVID-19 adds uncertainty

Index value movement between 1 January 2020 and 1 August 2021: S&P/ASX All Ordinaries Index (^XAO)



Globally, most listed share company prices dropped in early 2020, at the start of the pandemic. This was also true in Australia. Thereafter overall the share market began to recover.

In March 2021, the Organisation for Economic Co-operation and Development (OECD) upgraded its economic outlook for Australia to 4.5% in 2021, up from 3.2% forecast in December.

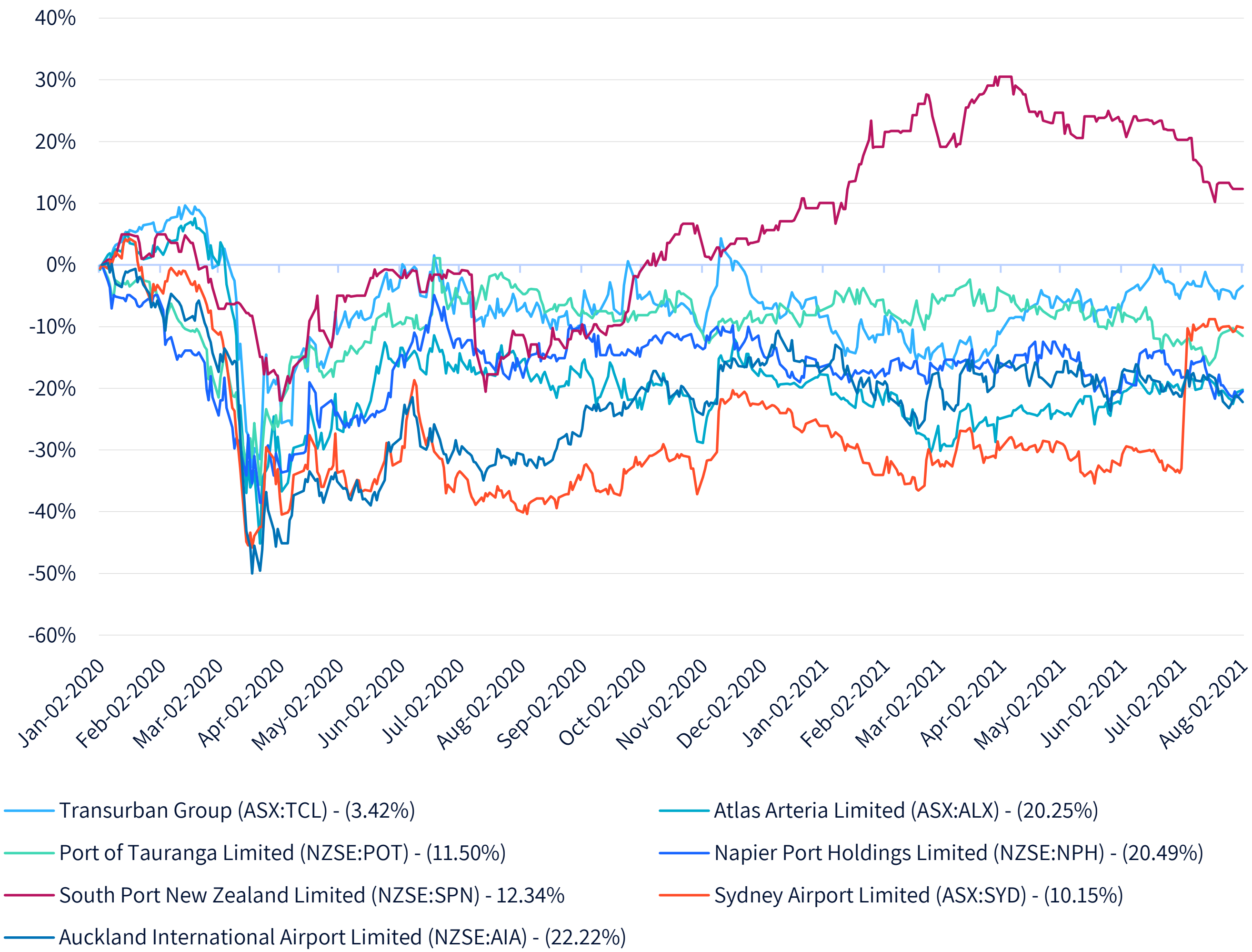
While the economic recovery is underway and share prices are increasing, the Delta variant of COVID-19 has added uncertainty, particularly in countries such as Australia, where vaccinations have lagged and where Delta is currently causing lockdowns.

As we will discuss on the next few slides, share prices on listed companies have diverged over time, as the effect of the pandemic on different industries and companies has became clearer.

Sources: Capital IQ, OECD,

Transport company share prices have generally declined

Share price movement between 1 January 2020 and 1 August 2021: Listed transport companies



Source: Capital IQ

Transport asset share prices have generally decreased.

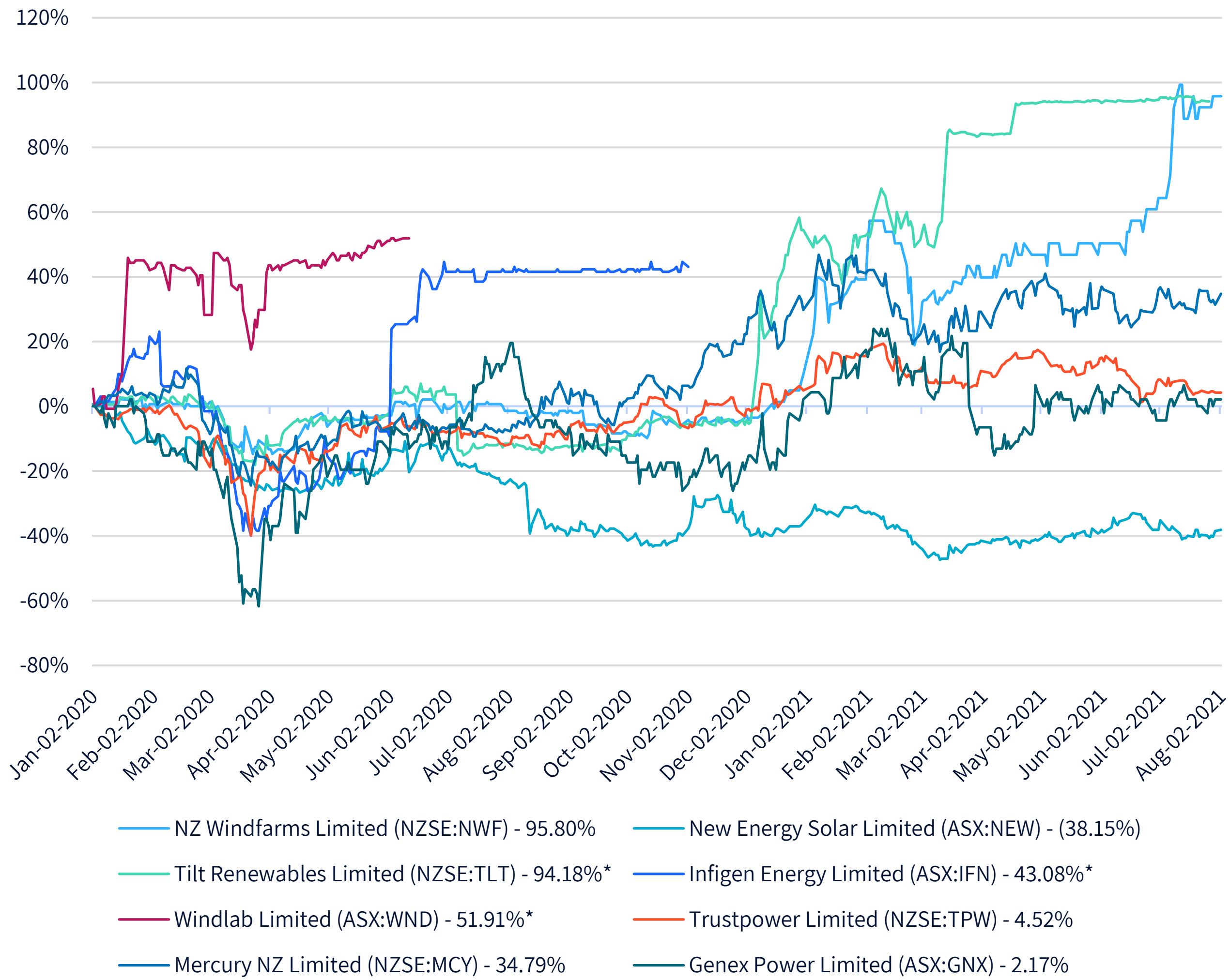
While Australian and New Zealand ports continued to trade through lockdowns and have shown earnings resilience, in the longer term COVID-19 may affect population and economic growth (as discussed in the latest Intergenerational Report produced in June 2021). The cargo going through ports during the pandemic has changed. Container volumes are experiencing record growth as Australians spend more on home renovations and personal shopping and less on experiences; jet fuel and unleaded fuel volumes have dropped; and global supply chain disruptions means there is a backlog of some goods and containers. China trade tensions have also impacted some cargoes, but in general these have found other markets. Cruise terminals, like airports, continue to be affected by bans on international travel.

Toll roads are affected by lockdowns with TCL's share price decreasing whenever a lockdown is declared. Toll road daily traffic has also been affected by more people working from home, which has been partly offset by a move away from public transport. The type of traffic has also changed, with more home deliveries and movement to and from logistics depots, and less airport traffic.

Airports are struggling but they are expected to recover once borders open and lockdowns end. Lockdowns have made domestic travel unpredictable. The recovery trajectory of international travel is based on Australia's vaccination progress and its strategy to re-open international borders. The share offer for Sydney Airport by IFM indicates that there is appetite for airports.

Listed renewable companies are generally in demand

Share price movement between 1 January 2020 and 1 August 2021: Listed renewable energy related companies



* Price shown reflects last listed price

Source: Capital IQ

Most listed renewable energy related companies experienced price increases, except for New Energy Solar (NEW).

NEW has experienced share price declines but nonetheless it successfully sold its two Australian solar farms (both operating, with long term PPAs) in mid June 2021. The implied transaction multiple was reported as $1.75m/ MWdc.

Canadian Solar is now also selling two Australian solar farms.

The exit of New Energy Solar from the Australian market is part of a larger trend that has seen other ASX listed renewable energy companies taken off the market.

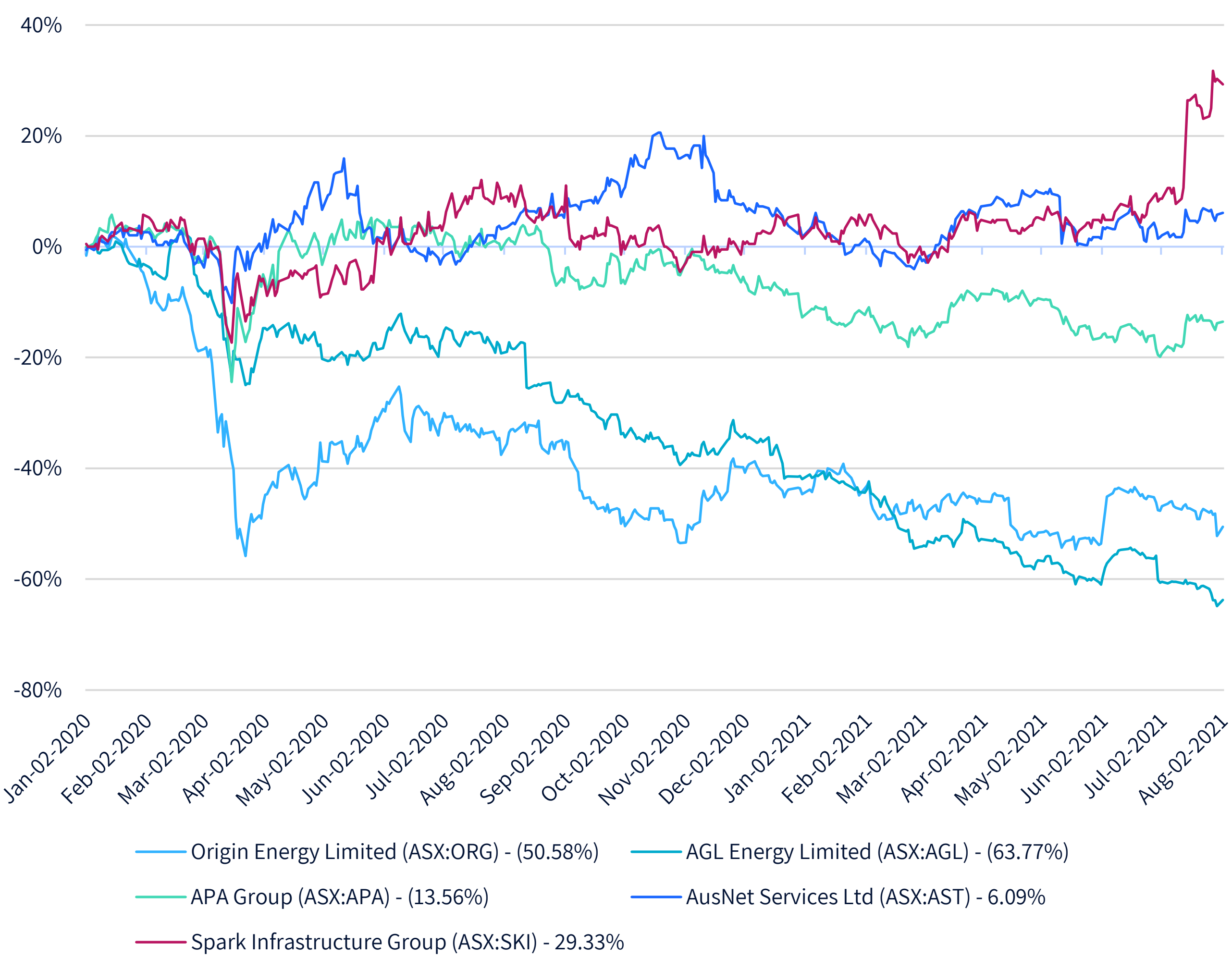
What is interesting is that the multiples for solar assets and share prices are increasing when forecast wholesale energy generation prices (particularly solar weighted average prices) are forecast to be low for the foreseeable future, driven in part by different State governments providing support for new renewable energy generation.

Australia is however, under increasing international pressure to address climate change and support the renewable energy transition, therefore there is a possibility prices may be higher in future than currently forecast (resulting in higher valuations). In addition, fund managers and super funds are increasingly focused on reducing the carbon footprint of their portfolios, which has increased demand for renewable energy related assets.

We have seen widely varying outcomes for renewable energy transactions with higher risk greenfields merchant operations struggling and lower risk operating renewable assets being in high demand.

Non renewable energy companies have struggled, transmission/distribution less so

Share price movement between 1 January 2020 and 1 August 2021: Listed energy related companies



Source: Capital IQ

As investors focus on a move to carbon neutral portfolios more traditional energy companies like Origin and AGL have fallen out of favour. This is compounded by reduced energy demand due to COVID-19 and lower energy prices.

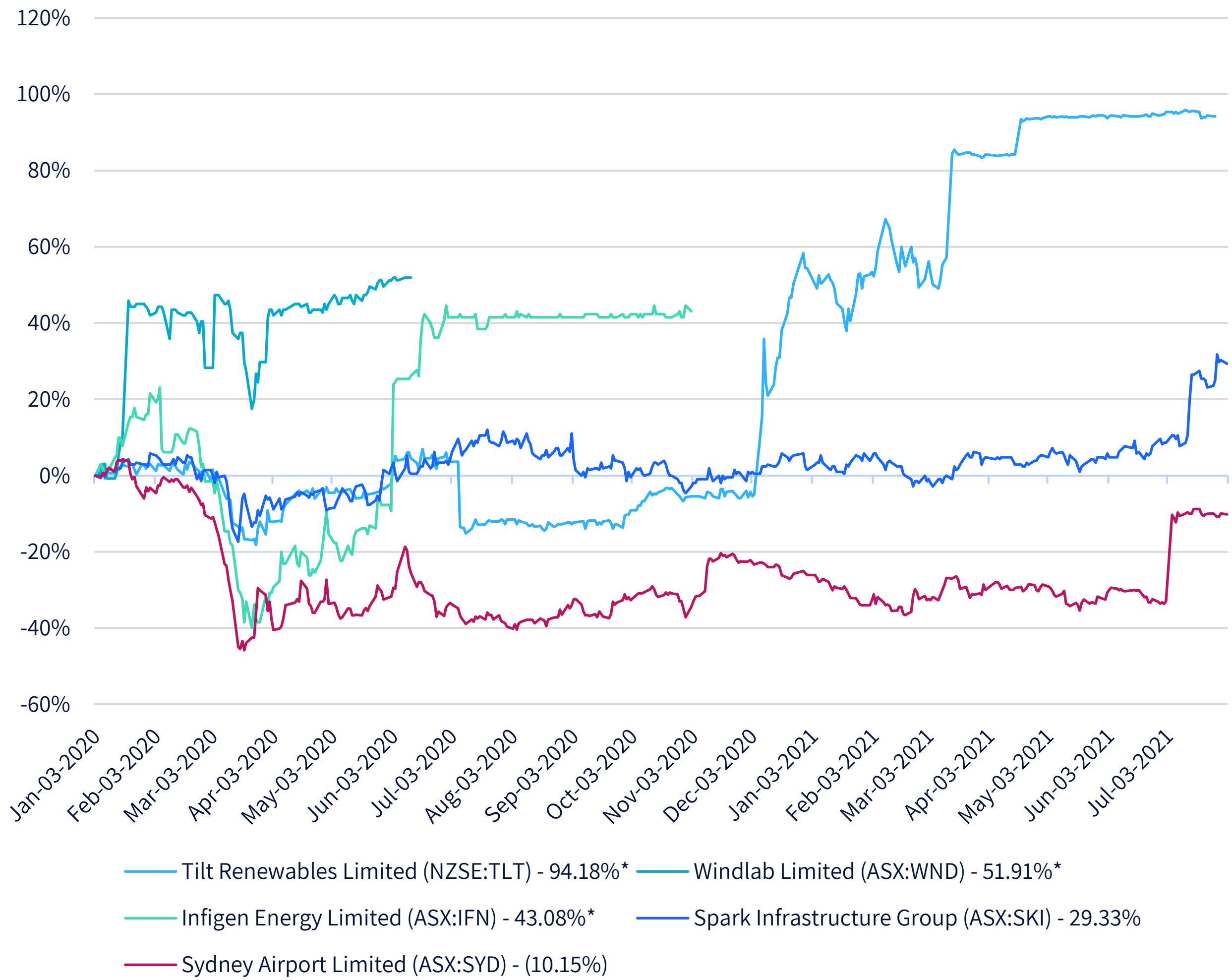
APA has announced forecast increases in its asset base, but this does not appear to have translated into increased value. Analyst commentary we have seen said that while APA is likely to experience growth in the medium term, in the long term the transition from gas to renewable energy could hurt APA. We have also seen commentary that APA is a high yielding stock and a bond proxy, and therefore could be negatively affected by increasing bond yields (assuming these occur).

While increasing bond yields could potentially hurt high yielding stocks, regulated assets could benefit through increased risk free rates in regulatory resets. In this regard, it is interesting to see that while risk free rates increased sharply early in 2021 (peaking in late February), they have since reduced (See page 9).

The share prices of regulated transmission and distribution companies like Ausnet and Spark have done reasonably well recently. This is particularly true of Spark Infrastructure, which has recently had a takeover offer by a consortium including KKR and OTPP. Unlike many other regulated assets, Spark is able to offer investors both yield and growth (and furthermore, renewable energy related growth), due to growth in the regulated asset base of some of its assets and due to its recent move into renewable energy generation. It is interesting to see that there has been some upward revision in both the APA and Ausnet share prices since the Spark bid – see the graph opposite.

Listed infrastructure is being taken private

Share price movement between 1 January 2020 and 1 August 2021: Listed companies being taken private



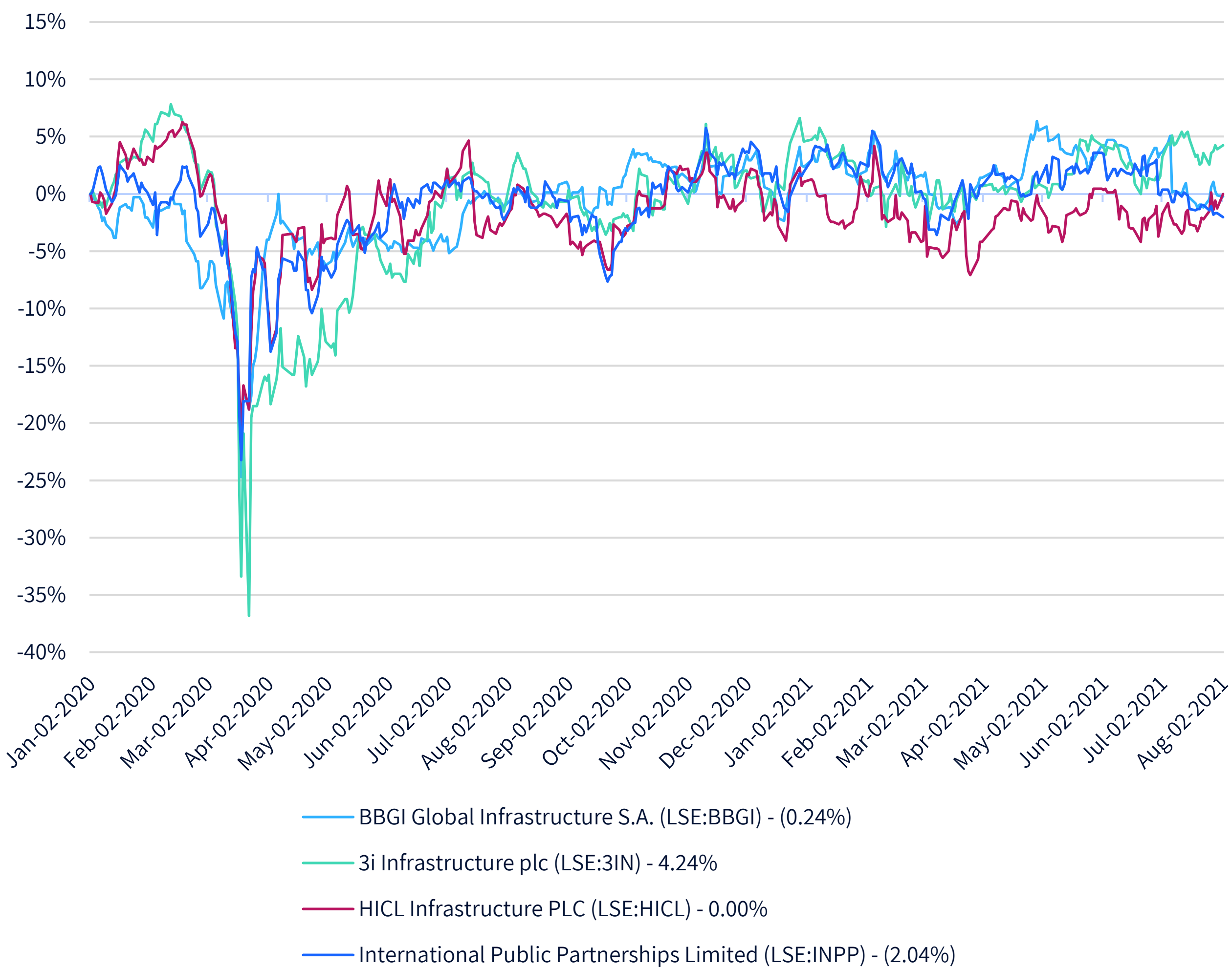
Source: Capital IQ

Listed companies that have been taken private or have had offers have experienced significant increases in share prices post announcement.

- Infigen's share price increased from $0.59 pre announcement to $0.93 when it was delisted, a 54% increase.
- Tilt's share price increased from $3.90 pre announcement to $8.01 when it was delisted, a ~200.00% increase.
- Windlab's share price increased from $0.65 pre announcement to $1.00 at 2 August 2021, a 54% increase to date.
- Spark's share price increased from $2.24 pre announcement to $2.69 at 2 August 2021, a 20% increase to date.
- Sydney Airport's share price increased from $5.75 pre announcement to $7.79 at 2 August 2021, a 35% increase to date.

Social infrastructure share prices have hardly moved

Share price movement between 1 January 2020 and 1 August 2021: Listed UK PPP/Social funds



Source: Capital IQ

Unfortunately there are no listed social asset funds in Australia. We have therefore looked at UK listed PPP funds.

While UK listed PPP also experienced significant share price declines in early 2020 (consistent with the rest of the market), they reverted over time to their long term trends.

Despite changes in bond rates (which spiked at the start of 2021 and then moderated), UK listed PPP fund share price values have hardly moved since before the pandemic – see share price changes opposite.

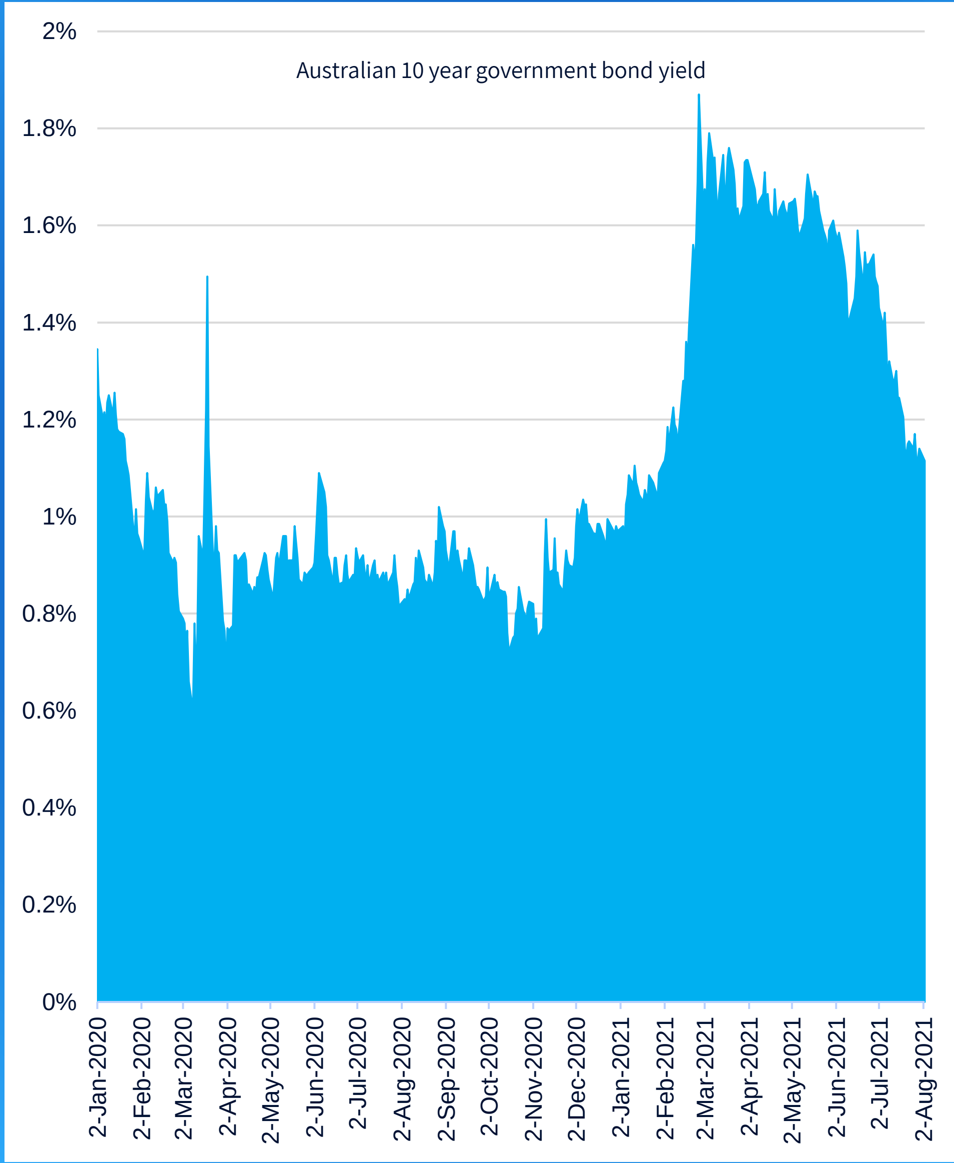
Risk free rate spiked but has moderated

The spot 10 year government bond was 1.35% on 1 January 2020 and was 1.14% on the 2 August 2021.

Yields increased sharply at the beginning of 2021, reaching a peak of 1.85% in February 2021; but have since reduced.

We use a long-term risk-free rate for infrastructure valuations. A key input into this is Consensus Economics long term forecasts. These are updated in October and April each year. The Consensus Economics long-term forecast risk free rate from 2027 onwards has increased from 2.2% in April 2020 to 2.6% in October 2020, to 2.9% in April 2021.

The risk free rate reflects both real growth and inflation over a particular time period. In this context it is interesting to see the April 2021 CPI forecast from Consensus Economics. The Consensus Economics forecast risk free rate is the same or lower than CPI until 2025, implying little real growth.



Source: RBA data

Market risk premium is moderating

The market risk premium can be estimated through consideration of volatility on the market. Volatility and the MRP increased significantly in March 2020 (when share prices declined globally) but has moderated since.

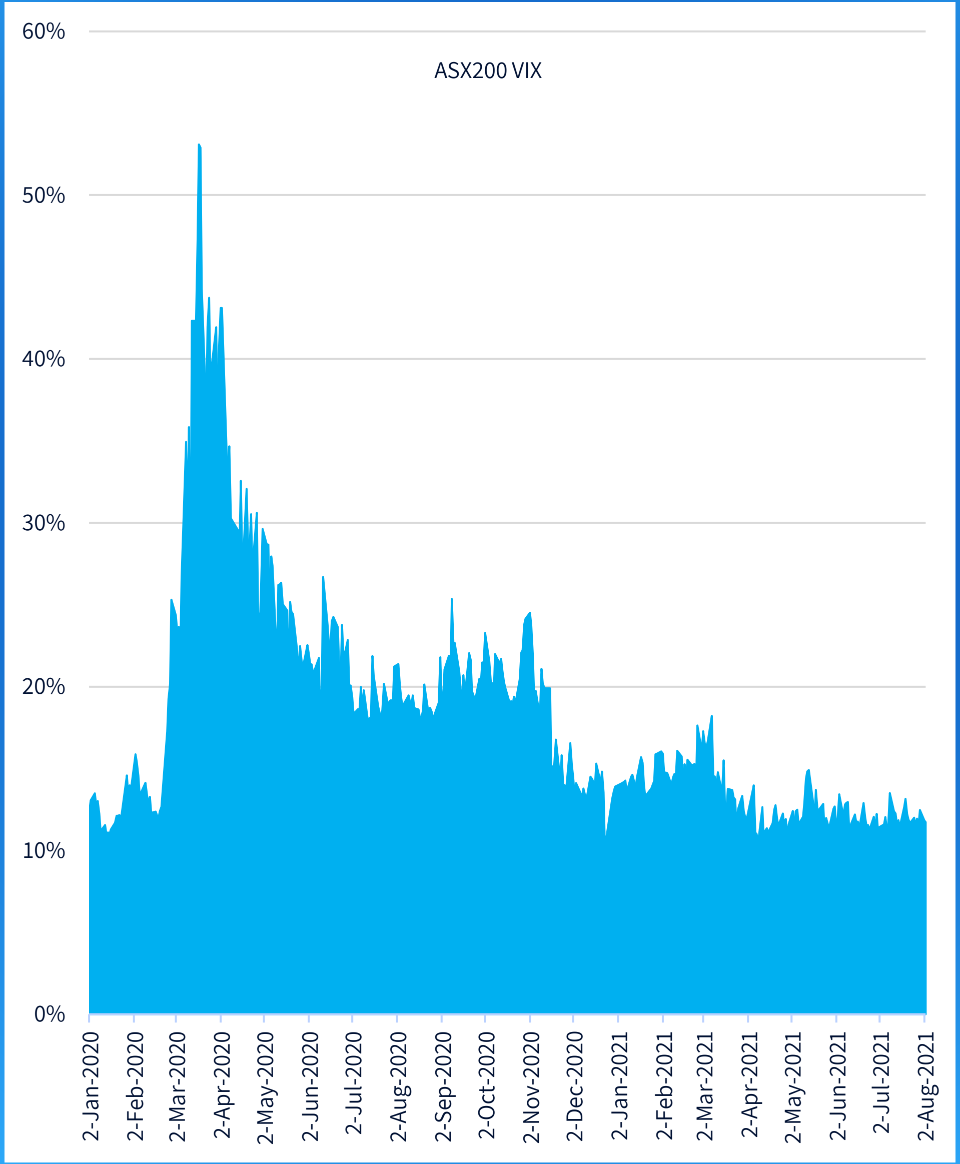
Research by KPMG into the global equity risk premium in March 2020 found it to be 6.57%, up from 6.00% at the start of 2020. (*Equity Market Risk Premium Research Summary, KPMG, 31 March 2020*).

We also considered the Pablo Fernandez research. Pablo Fernandez conducted research into the MRP in February 2020 and published in March 2020 when at least some of the effects of COVID-19 were evident. In 2020 the Australian median MRP applied by practitioners, according to his research, was 6.2% and the average was 7.9%. The 2021 research, published on 16 June 2021, indicated an average Australian MRP of 6.4% and a median of 6.3%.

We have also used the method proposed by Dr Steven Bishop (et al) to estimate the MRP in each period, by considering the likely MRP by estimating the MRP per unit of volatility. Using this method:

- The long term average MRP is 6.5% from 2014 to the current period.
- The 12 month average MRP for 2019 was 5.45%%.
- The 12 month average MRP for 2020 was 8.73%.
- The YTD to 2 August 2021 MRP for 2021 is 5.72%.

The MRP we apply should be forward looking. It is moving about a bit, so its difficult to predict what it will be in the next few months. We tend to use a long term MRP to be consistent with our use of a long term risk free rate. Our MRP is determined with reference to market data, however.



Source: Capital IQ

AIR Valuations is part of the Maven Libera group

+61 413 900 094

Megan.r@mavenlibera.com.au

www.mavenlibera.com.au

Level 27, 101 Collins Street, Melbourne, VIC, Australia, 3000

AIR
VALUATIONS