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Business

Renationalisation fears hit all infrastructure trusts – but this one is almost immune



Questor Trust Bargains

Investors worry that Labour will scrap PFI deals but GCP Infrastructure has little exposure, says *James Connington*



INFRASTRUCTURE investment trusts have proved a hugely popular option for yield-hungry investors struggling to find income in a low-yield world.

As a result, many of the trusts, which invest in everything from warehouses to GP surgeries, have traded at double-digit premiums in recent history. But the sector has taken a knock. Many of the trusts are heavily invested in private finance initiative (PFI) and public-private partnership (PPP) deals – where private firms are contracted to manage public projects. These provide lucrative, government-backed long-term income.

Concern is growing that a Labour government will renationalise infrastructure projects, fuelling uncertainty about how to value them.

The political climate darkened further last month when

the construction firm Carillion collapsed. Shortly afterwards, the National Audit Office (NAO) released a damning report that put the total cost of future PFI liabilities to the public purse at £200bn, and said there was little evidence that the contracts were good value.

A number of infrastructure trusts have exposure to projects in which Carillion was involved.

There is also broader pressure from rising inflation and interest rates, as infrastructure trusts' popularity was in part driven by the lack of income available elsewhere.

The combination of these factors has driven premiums in the sector dramatically lower in recent months. And, while the various trusts are far from identical – some have much higher exposure to PFI and Carillion than others – all have suffered.

This provides an opportunity to buy

GCP Infrastructure Buy
Invests in debt not equity, and has minimal exposure to Carillion



Key numbers

- ◆ Market value: £1bn
- ◆ Year of listing: 2010
- ◆ Premium: 6.6pc
- ◆ 12-month average premium: 15.3pc
- ◆ Yield: 6.4pc
- ◆ Most recent year's dividend: 7.6p
- ◆ Gearing: nil
- ◆ Annual charge: 1.09pc

a portfolio that produces significant, reliable income at a major discount relative to the price of six months ago.

GCP Infrastructure provides finance for infrastructure projects through investing in debt rather than equity. It currently yields 6.4pc.

At 23pc of the portfolio, it has much lower exposure to PFI and PPP projects than many of its peers. The rest is mainly invested in social housing and renewable energy projects. It also had very little exposure to Carillion-linked projects when the company collapsed, at less than 1pc of the portfolio.

As of December, 42pc of the portfolio

was in senior debt, with 56pc in subordinated debt – one step down the priority list for repayment. Over the past year the trust has almost always traded at a double-digit premium, occasionally touching 20pc. Now that premium is down to about 7pc.

The trust invests only in the UK and is known for providing a dependable income stream; its debt portfolio has 16 years of payments left on average. A £10,000 investment five years ago would have generated £3,652 in income and a total return of 53pc.

Patrick Thomas, of Canaccord Genuity Wealth Management, said much of the erosion in premiums seen

in the sector was down to the threat of wholesale renationalisation.

Here, GCP Infrastructure has a significant advantage. In addition to having low exposure to PFI/PPP projects in the first place, it invests in debt, which would be repaid ahead of equity were a future government to renationalise such projects.

Thomas said: "The market views GCP's exposure to PFI/PPP projects as higher than it is and neglects the fact that GCP is investing further up the capital structure. That's where the valuation discrepancy is."

He said the trust had one disadvantage: less of its portfolio has built-in inflation protection than some of its peers. "But again, the market misses the fact that the portion with inflation linking has increased and continues to increase," he said.

Questor says: buy
Ticker: GCP
Share price at close: 119p

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