First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

First Sentier Investors

Monthly Review and Outlook | April 2023

Market review

Global Listed Infrastructure increased in April, supported by generally robust March quarterly earnings.

The best performing infrastructure sector was Toll Roads (+5%), owing to healthy March quarter earnings numbers and a positive outlook for traffic volumes. The worst performing infrastructure sector was Towers / Data Centres (-1%), as telecom equipment manufacturer Ericsson noted that its mobile network equipment unit had seen a decline in revenues from North American 5G projects. Concerns that lower free cash flow levels at US telecom companies AT&T and Dish Network could affect future leasing demand also weighed on tower stocks.

The best performing infrastructure region was Japan (+7%), reflecting strong gains for its passenger rail stocks on expectations that passenger numbers would normalise / increase from here; and for its electric and gas utilities owing to better than expected March quarter earnings numbers. The worst performing infrastructure region was Latin America (-1%), as political uncertainty weighed on Mexican airport operators.

Fund performance

The Fund returned +3.5% after fees in April[1], 125 basis points ahead of the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was Channel Tunnel operator Getlink (+12%), which announced strong March quarter earnings numbers. These were underpinned by robust pricing on the company's vehicle shuttle service and higher than expected demand for its Eurostar passenger rail operations, despite strike action in both the UK and France. The company's ElecLink subsidiary, an interconnector that allows electricity to flow between the UK and France, also produced higher than expected revenue during the period.

French-listed toll road operator Vinci (+9%) announced better than expected March quarter earnings. While traffic volumes on its toll road concessions were in line with expectations, passenger numbers at its airports grew strongly; and its Energies business segment continued to benefit from growing demand for projects related to the energy transition, such as the construction of wind and solar farms. Jiangsu Expressway (+9%) rose on a positive outlook for traffic volumes, reflecting expectations that Chinese economic activity levels will continue to increase following the lifting of COVID-related movement restrictions in late 2022. The company is seeking to expand the concession life of the main road connecting Shanghai and Nanjing – one of its key assets – by 25 years. Brazil peer CCR (+6%) climbed as investors were drawn to its appealing valuation multiples, and potential to participate in future toll road projects in the country, expected to be auctioned in coming years. Australia's Transurban (+5%) announced solid March quarter traffic volumes across its portfolio of Australian and US road networks.

Specialist energy supply and storage business Rubis (+9%) gained as investors identified value. A defensive balance sheet and a dividend yield of over 7% are likely to prove supportive of its share price. The company operates in a mix of developed and emerging economies, focusing primarily on niche products or markets with high barriers to entry. Mid-cap, Northern Italian electric, gas and water utility Hera (+9%) outperformed despite a lack of material stock specific news. Over the longer term the company is likely to be a beneficiary of EU spending on waste management and energy efficiency; Italy currently lags EU targets in these areas. Republic Services (+7%), the second largest provider in US of waste management and environmental services, announced pleasing March quarter earnings numbers, with a combination of strong pricing and recent acquisitions underpinning better than expected revenue growth of 21%.

The worst performing stock in the portfolio was large cap US tower operator Crown Castle (-8%) which lagged as reasonable March quarter performance from its macro towers division and upbeat comments from its management team about the long term trajectory of the business were overshadowed by disappointing revenues from its fiber business, and concerns for the sector outlook described above. Peer American Tower (+1%) performed better as March quarter earnings numbers were supported by solid leasing numbers and effective cost control. Gains for Italian tower company Inwit (+4%) reflected ongoing hopes for industry consolidation in the European towers space.

Guangdong Investment (-7%), which manages the concession to provide water to Hong Kong, along with smaller mainland China water utilities and property rental and development interests, also underperformed. The company announced underwhelming March quarter earnings, playing down the growth optionality of its mainland China water segment and noting a lacklustre property market environment. Mexican airport operator ASUR (-6%) also lagged as steady earnings numbers were overshadowed by political uncertainty. The Mexican government announced plans to reform federal laws related to the granting of concessions, potentially including airports. The changes may make it easier for concessions and other government-granted permits to be revoked.

[1] Fund performance is based on the Singapore unit trust, net of fees, expressed in SGD terms. All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

Fund activity

The Fund initiated a position in passenger rail company West Japan Railway, whose railway network (~800km of bullet train [shinkansen] and ~4,000km of conventional lines) services much of south west Japan, including its cultural heart, the Kansai region. After passenger volumes reduced during the COVID-19 pandemic, the stock is now set to benefit as the easing of movement restrictions and border controls translate to the normalisation of business activity and a recovery in tourist volumes. The company's healthy balance sheet should help to insulate the stock from the impact of higher interest rates.

Market outlook and fund positioning

The Fund invests in a range of listed infrastructure assets including toll roads, airports, railroads, utilities and renewables, energy midstream, wireless towers and data centres. These sectors share common characteristics, like barriers to entry and pricing power, which can provide investors with inflation-protected income and strong capital growth over the medium-term.

Toll roads remain the portfolio's largest sector overweight. Robust traffic volumes and inflation-linked toll increases are leading to healthy earnings growth. We are alert to potential headwinds, such as an economic slowdown leading to a dip in truck traffic on longer distance roads; or soft commuter traffic levels on some intra-city roads as the return-to-office trend settles. Overall however we expect toll roads to remain strong performers as toll increases support earnings growth, and demand proves resilient.

The portfolio is slightly overweight towers / data centres. Consumers and businesses alike continue to move activities onto digital platforms, underpinning growing demand for communication infrastructure assets. While concerns for leasing demand have arisen this month, and higher interest rates may be more of a headwind to EPS growth than in previous years, the structural growth thesis supporting this sector remains intact.

A substantial part of the portfolio consists of utilities / renewables stocks. Decarbonisation, electrification and resiliency spend represent large and growing investment opportunities for these companies. These investments drive utilities' rate base growth, leading in turn to earnings growth. However, in the near term this growth is likely to be tempered by rising interest costs. Despite these headwinds, we believe utilities have the potential to deliver reasonable earnings growth, underpinned by plentiful capital investment opportunities and aided by limited sensitivity to a weaker economic backdrop.

An underweight position has been maintained in the energy midstream sector, with exposure consisting of high conviction positions in companies with exposure to low cost basins; or that are positioned to benefit from growth in US LNG exports. We remain conscious of the structural headwinds that Net Zero initiatives may pose to this sector in the longer term.

Source : Company data, First Sentier Investors, as of 30 April 2023.