

First Sentier Global Listed Infrastructure Fund Monthly review and outlook

Monthly Review and Outlook | August 2023

Market review

Global Listed Infrastructure fell in August against a backdrop of rising bond yields and mounting concerns for slowing growth in China.

The best performing infrastructure sector was Energy Midstream (flat), aided by generally well-received June quarter earnings numbers and higher commodity prices. The worst performing infrastructure sector was Toll Roads (-6%) as investors took profits following healthy ytd gains.

The best performing infrastructure region was Japan (+6%), led higher by its electric utilities (not in our focus list). These stocks gained on hopes that the government may now be closer to allowing the re-start of additional nuclear power plants. The country's railroads also rose as travel restrictions continued to ease. The worst performing infrastructure region was Australia / NZ (-7%), owing to underperformance from its toll road, airport and railroad stocks.

Fund performance

The Fund returned -3.9% after fees in August¹, 20 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was West Japan Railway (+8%). The company's passenger rail network includes the cities of Osaka and Kyoto, which are often considered the cultural heart of Japan. Its share price rose on the view that it is well positioned to capture pent-up demand from domestic travellers, as well as benefitting from a return of overseas tourists. During the month, China approved the resumption of Japan-bound group tours for its citizens, in a move that is expected to support Japan's inbound tourism numbers. Channel Tunnel operator Getlink (-3%) reported relatively soft traffic numbers for July, with both car and truck volumes remaining below 2019 levels. Recent social unrest in France is likely to have reduced car (tourist) demand during this period.

US energy midstream company Targa Resources (+5%) continued its run of strong performance as investors shrugged off lower-than-expected June quarter earnings and focused on the company's

positive outlook comments. Its Natural Gas Liquids-focused infrastructure assets are positioned to benefit from strong producer activity across Texas' Permian basin. US Liquefied Natural Gas (LNG) exporter Cheniere Energy (+1%) announced better-than-expected June quarter earnings, and raised 2023 earnings guidance for the second time, reflecting a positive outlook for global LNG demand.

Canadian-listed Altagas (+1%), whose assets include US natural gas utilities and energy midstream assets in Western Canada, increased as investors welcomed news of a planned acquisition. Altagas intends to buy natural gas-related infrastructure assets from Tidewater Midstream and Infrastructure (flat, not in our focus list) for C\$650 million, in a move that would bolster its midstream operations.

The worst performing stock in the portfolio was Chinese gas utility ENN Energy (-34%). June quarter earnings were below market consensus owing to reduced demand from commercial and industrial customers, particularly gas-fired power plants. The company warned that natural gas sales, which had been expected to grow by 10% in 2023, were likely to fall by 5% against the backdrop of a softening Chinese economy.

The portfolio's other Chinese holdings, including Beijing Airport (-19%) and water utility Guangdong Investment (-9%), also declined. Toll road operator Jiangsu Expressway (-1%) held up better after June quarter earnings were in line with market expectations. Traffic volumes on its most important asset, the Shanghai-Nanjing Expressway, exceeded 2019 levels during the first half of 2023.

US utility stocks were also an area of weakness for the portfolio. PPL Corp (-9%) lagged despite reiterating 2023 earnings guidance and affirming Earnings Per Share growth of between 6% and 8% per annum, through to "at least" 2026. Dominion Energy (-8%) fell as the company's ongoing business review continued to weigh on investor sentiment towards the stock. NextEra Energy (-8%), whose Energy Resources entity has the largest market share of North American wind capacity, underperformed on news of quality problems with Siemens Gamesa's wind turbines. We note that NextEra uses General Electric turbines for its wind operations.

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

During the month, a position was initiated in utility / energy midstream company UGI Corp. The business consists of four distinct segments; regulated gas utilities in Pennsylvania and West Virginia; energy midstream in the Appalachia region; propane distribution in the US (AmeriGas Propane); and propane distribution in Europe (UGI International). In recent months, a growing focus on the structural headwinds facing its propane businesses, and concerns that the company may seek to acquire additional utility assets, has seen the stock trade down to very appealing levels. Towards the end of August, UGI announced plans to carry out a strategic review of the company, with the aim of reducing earnings volatility and strengthening its balance sheet.

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 higher tolls 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 weighed on the sector recently, and higher interest rates have proved more of a headwind to earnings growth than in previous years, these factors are now better reflected in valuation multiples.

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. However North American utilities in particular have lagged in recent months as defensive assets have been overlooked by investors. We believe the extent of this underperformance appears to be extreme, given the utilities' generally sound fundamentals, undemanding valuation multiples and substantial longer term growth drivers.

The portfolio is underweight the airports sector. Following strong share price gains driven by the post-covid passenger recovery, mispricing in this space is becoming less evident. We remain most positive on airport operators with exposure to tourist-focused destinations, particularly those serviced by low cost carrier airlines.

Source : Company data, First Sentier Investors, as of 31 August 2023.

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