The infrastructure investment boom

Surging infrastructure needs and private equity fundraising bodes well for listed infrastructure companies

February 2025

For years, investors have allocated to infrastructure to reap the benefits of an asset class with attractive return potential, higher yields than equity markets, defensive characteristics and inflation mitigation[1]. Today, investor interest in infrastructure is expected to grow as global electrification, digital innovations, increasing demand for energy and energy security, and the need for efficient transportation drive new development opportunities.

Redwheel's Ecofin team believes in the fundamental rewards of a blended approach to investing in listed and private infrastructure. Both investments offer exposures to essential assets critical to the functioning of economies and yield steady cash flows. However, discerning investors will focus on the diversification and access to a range of sub-sectors, geographies, political systems, valuation differences, and liquidity that listed investments can also offer.

Listed infrastructure is a complement and a diversifier to private infrastructure

Listed infrastructure shares many of the same attractive traits as private infrastructure. Investments are underpinned by real assets with visible cash flows that should provide attractive and consistent returns with low correlations to traditional equities. Listed infrastructure also provides access to high quality assets and leadership teams globally.

However, by contrast, listed infrastructure allows investors to gain full exposure immediately and offers the flexibility to adjust allocations based on risk and opportunities. Beyond this, we see four additional advantages that strengthen the case for increasing allocations to listed infrastructure: attractive relative valuation, enhanced risk diversification, a resurgence in M&A activity and greater scope for value capture.

Advantage 1: Attractive valuation compared to private assets

Valuations of listed infrastructure assets stand at a significant discount to their private equivalents and by historical measures, in our view. While private equity specialists have historically paid premiums to listed assets, justified to a large extent by the majority control of operations, we believe that the valuation gap has increased over the past couple of years. The table below reveals that recent take-out transactions in the space, whether for renewables assets, power & gas networks or transportation infrastructure, have averaged a c.40% premium to listed valuations. Most recently, Caisse de Depot et Placement du Quebec acquired Innergex for a 58% premium over the prevailing share price and an 80% premium to the 30-day volume weighted average price.

Chart 1: Private investors pay significant premiums for listed assets

Date	Company	M&A transaction details
2021/2022	Sydney Airport, Spark Infra, AusNet	Australian listed infrastructure takeovers by IFM/ GIP, KKR and Brookfield at premiums to close of 40%, 28% and 34%
June 2023	OPD Energy	Antin takeover (46% premium to last close)
December 2023	GreenVolt	KKR takeover (31% premium to 6M average price)
March 2024	Encavis	KKR takeover (54% premium to last close)
May 2024	Neoen	Brookfield takeover (40% premium to 3M average price)
February 2025	Innergex	CDPQ acquires Innergex for $10bn, 58% premium to last close; 80% premium to 30-day average price

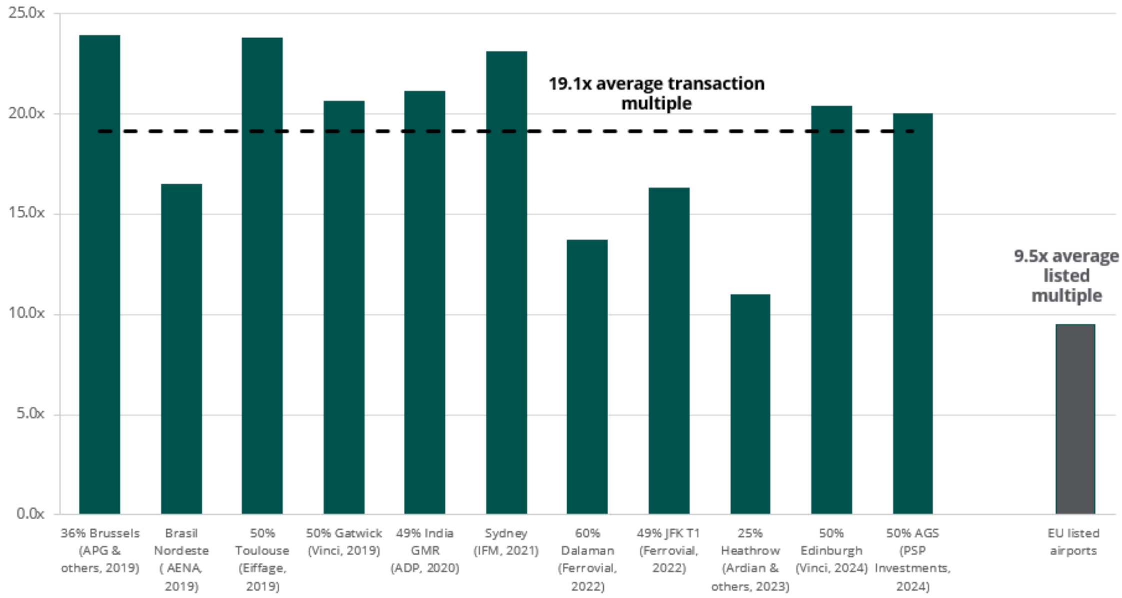
Source: Company data, Ecofin. The information shown above is for illustrative purposes.

[1] Source: Redwheel and Morningstar, February 2025

We read this situation as an illustration of the longer-term perspective of typical private equity players while listed equity investors tend to be more focused on the short-term outlook. This is a key differentiator for the analysis of infrastructure, which consists of long-duration assets and projects. The trend also reflects significant inflows into private equity infrastructure funds, generating competition to grasp scarce listed assets on relatively low valuations.

A clear example of this valuation gap can be seen in recent transactions for European airport concessions. Since 2019, private M&A transactions have been concluded at valuations (EV / EBITDA) that were appreciably higher than listed assets, with individual premia on several transactions exceeding 100%. While listed airports trade at an average EV/EBITDA of 9.5x, we calculate that the average multiple paid in private transactions over the past six years has been 19.1x EV/EBITDA.

Chart 2: Recent European airport transactions point to a valuation gap of close to 100%



Source: Company data, Ecofin. 31 December 2024. The information shown above is for illustrative purposes.

We expect this striking valuation gap to gradually reduce as private infrastructure investors put capital to work in coming years. Investors with private exposure can compound returns in the space by playing both sides of anticipated transactions as well as through rising valuations in listed assets.

Over the past year, as shown in the table below, private equity majors have raised more than $100bn to invest in infrastructure. Infrastructure is seen as a portfolio diversifier away from more cyclical businesses, with growth trends underpinned by structural tailwinds in decarbonisation and electrification. The growing needs of AI-driven datacentres to secure their energy supplies fuels further growth prospects for the utilities part of the infrastructure universe. However, the opportunity is broader and more diverse than AI, encompassing the electrification of transportation through electric vehicles, the surge in cooling and heating needs globally, and reshoring initiatives for manufacturing in the US.

"The growing needs of AI-driven datacentres fuels further growth prospects for utilities"

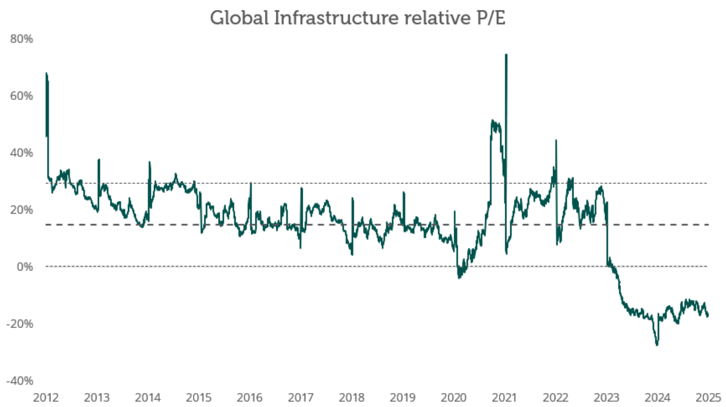
Chart 3: Record levels of private equity cash resources could help close the valuation gap

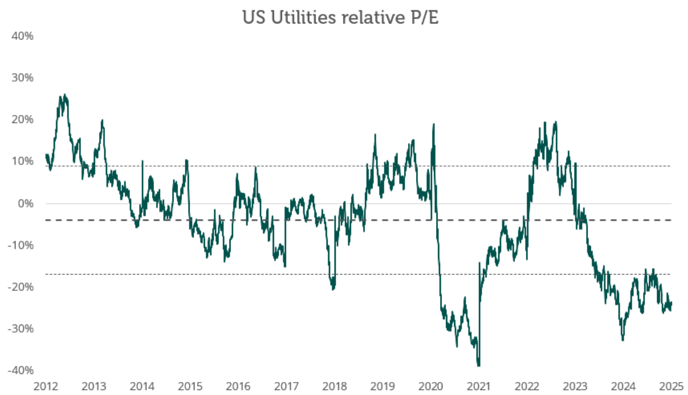
Brookfield raises $28bn for largest-ever infrastructure fund (1 Dec 2023)
Blackrock buys Infrastructure Firm **GIP** for $12.5bn in Major Alternatives Push (12 January 2024)
Macquarie European Infrastructure Fund 7 reaches €8bn of investor commitments" (22 January 2024)
Blackstone has $70bn in prospective datacentre pipeline, on top of $55bn portfolio (July 2024)
Blackrock/GIP and Microsoft announce $30bn fund to build out AI infrastructure including power (September 2024)
KKR, Energy Capital Partners agree to invest a combined $50bn in datacentre and power generation projects for AI development (Oct 2024)

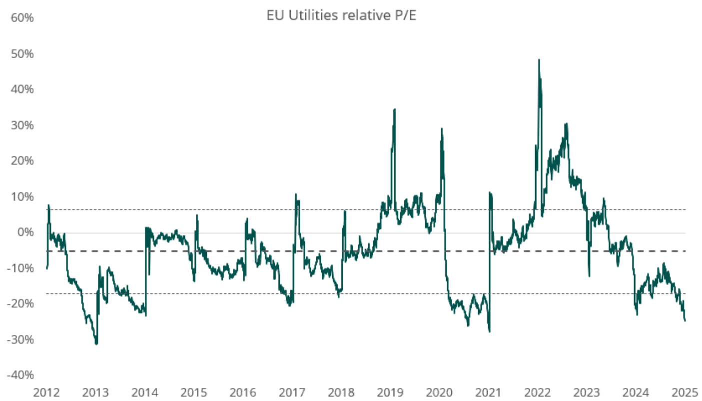
Source: Bloomberg, company data. The information shown above is for illustrative purposes.

We also note that listed valuations are close to their historical lows relative to general equity indices. The charts below show that global Infrastructure companies have rarely traded at such low relative P/E multiples and Utilities, both US and European, are trading at low relative multiples as well.

Charts 4, 5 and 6: Utilities and Infrastructure are trading at historically low relative multiples



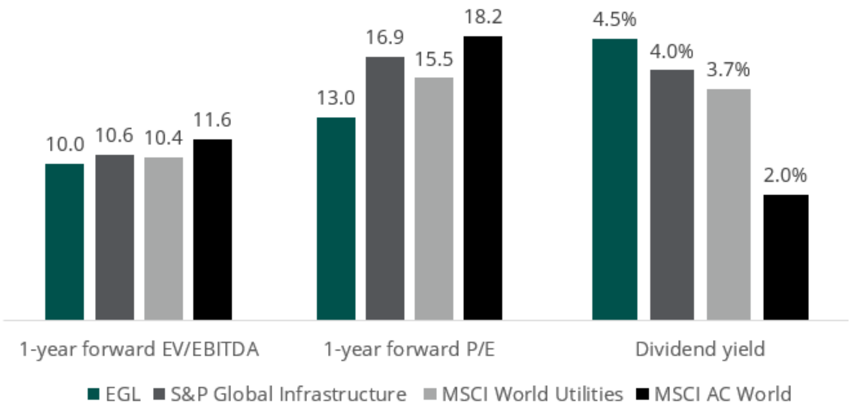




Source: Bloomberg, 18 February 2025. S&P Global Infrastructure vs. MSCI AC World; MSCI US Utilities vs. S&P500; Stoxx 600 European Utilities vs. Stoxx 600 Europe. Above 0% denotes a premium; below, a discount. Past performance is not a guide to the future. The information shown above is for illustrative purposes.

Finally, the chart below further supports our view that listed infrastructure, including Ecofin's dedicated strategy, is attractively valued relative to various market indices, yet offers a higher dividend yield.

Chart 7: Ecofin's Listed Infrastructure strategy (EGL) is returning a premium yield on attractive forward valuations



Source: Ecofin, Bloomberg, 3 February 2025. Past performance is not a guide to the future. EGL refers to Global Ecofin Utilities and Infrastructure Trust. Please see the disclaimer at the end of the document for information about the representative portfolio. Forecasts and estimates are based upon subjective assumptions.

Advantage 2: Risk diversification and financial prudence

Unlike private ownership, which is typically restricted to a single asset or a small number of similar assets in single regions or countries, listed infrastructure provides the option to invest in companies whose portfolios are diversified across geographies (thereby mitigating interest rate, currency, and regulatory risk) and technologies (e.g., combining wind and solar, intermittent renewables with baseload conventional power generation, toll roads and airports etc.).

Beyond portfolio diversification, we would also note a marked difference in financial leverage between public and private companies. While investors often perceive listed infrastructure as riskier than privates due to stock price volatility, the intrinsically more prudent financial structures of listed infrastructure companies – and the resulting mitigation of risk for equity holders – are often disregarded. Listed companies generally need to comply with stricter metrics for their credit ratings, and self-imposed leverage targets often fall well below the rating thresholds to provide equity investors with additional comfort. Listed companies are continually incentivised to retain attractive credit ratings (and correspondingly low financing costs) given their need to periodically refinance debt as developers – as well as owners – of infrastructure assets. Listed infrastructure groups, whether in Europe or the US, have a typical credit rating of BBB+[2].

"The intrinsically more prudent financial structures of listed companies are often disregarded"

Advantage 3: The return of big M&A?

Constellation's recent acquisition of Calpine[3] (private US gas and geothermal power provider) marks a potential turning point for M&A activity in listed infrastructure. After several years of subdued deal flow, low valuations in publicly traded infrastructure assets are drawing the attention of strategic buyers. High-quality, cash-generating assets have become materially undervalued following periods of rising interest rates and political uncertainty, creating compelling acquisition opportunities. With Constellation's move serving as a strong indicator (close to $100bn combined market capitalisation post-transaction, making it one of the largest transactions in the sector in a decade), attractive pricing could drive a resurgence of big M&A deals in listed infrastructure. We think this should be a clear tailwind for listed infrastructure in 2025 and beyond.

The need to reshuffle asset portfolios to adapt to the energy transition, requirements by hyperscalers to get suppliers capable of delivering large amounts of power 24/7, together with significant cash inflows into private equity infrastructure funds, bode well for future consolidation activity in the global infrastructure universe.

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[2] Bloomberg, December 2024
[3] Reuters, January 2025

"The need to reshuffle portfolios to adapt to the transition bodes well for future consolidation activity"

Advantage 4: Greater scope for alpha generation

A fundamental reason why listed infrastructure could compound higher returns over time is its ability to provide exposure to the full infrastructure value chain. Listed companies typically own operating infrastructure assets and, in most cases, they develop new ones. Having exposure to greenfield projects offers listed infrastructure companies the opportunity to deliver superior returns through operational expertise and efficiencies in the development and construction phases of a project. Construction tends to be a determinant stage during which considerable value is either created or lost. Conversely, private infrastructure portfolios tend to focus on the ownership of operating (brownfield) assets, and there is potentially a more limited scope for return enhancement in the operation and maintenance of these assets.

"Greenfield projects offer the opportunity to deliver superior returns in the development phases of a project"

Listed infrastructure stands out as a competitive structural growth play

There is a multi-decade upswing in economic infrastructure development driven by the needs of the modern economy and decarbonisation priorities. Investors, we contest, should increasingly participate via listed securities which screen favourably on valuation and provide important attributes such as liquidity, portfolio diversification and a broad opportunity set. These features should set the scene for listed infrastructure securities to close the valuation gap with private infrastructure assets.

Finally, investors will not be able to fully access this opportunity through a broad equity allocation. Listed Infrastructure (and private infrastructure) requires a dedicated allocation. Ecofin's Listed Infrastructure strategy delivers a meaningful yield pick-up over the MSCI AC World index on lower multiples – see Chart 7 - yet the portfolio represents only 1.6% of the index's market capitalisation and there is no overlap with its top 80 constituents[4]. To access the secular growth and value opportunities in listed infrastructure, investors are encouraged to seek specialised allocations.

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CONTACT US

Please contact us if you have any questions or would like to discuss any of our strategies.

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[4] Source: Bloomberg and Redwheel. EGL data as of February 2025; MSCI data as of January 2025

Representative Portfolio

Portfolio characteristics, top ten holdings, sector allocation, country allocation, attribution, volatility, yield, dividend and ESG information are based on a representative portfolio, which is Ecofin Global Utilities and Infrastructure Trust. Redwheel believes that precisely this account within the strategy most closely reflects the current portfolio management style for the Ecofin Sustainable Listed Infrastructure Strategy. Portfolio holdings are subject to change without notice. The information shown is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

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