New EDHEC*infra* study shows that ‘peak infra’ may be behind us

New EDHECinfra research documents the factors behind the evolution of unlisted infrastructure prices over past 15 years.

London – 30 January 2019 – A new paper drawn from the EDHECinfra /LTIIA Research Chair shows that common risk factors found in numerous asset classes explain the evolution of unlisted infrastructure secondary market prices. It also shows that after a long period of prices increases, “peak infra” may already be behind us.

Unlisted infrastructure prices have increased considerably over the past decade. Was it a bubble or a normal phenomenon? In a new ground-breaking paper, EDHEC*infra* shows that systematic risk factors can largely explain the evolution of average prices but also that valuations have shifted to a higher level.

Author and Director of EDHEC*infra* Frederic Blanc-Brude said: “The worries about a bubble were driven by the constant increase in prices since 2008. In fact, the process of price discovery happened in slow motion. Infrastructure businesses are expected to deliver steady and predictable cash flows and, to the extent that this is the case, they *should* be expensive. In a very illiquid market, it took 10 years for investors’ views on fair value to express themselves.”

Because private infrastructure is a very illiquid market and assets seldom trade, just looking at average reported prices is insufficient and biased. The paper uses actual transaction prices and advanced statistical techniques to estimate unbiased factor effects and apply these to a much larger group of companies (the EDHEC*infra* universe) which is built to be representative of the investable market.

Six factors are found to explain the market prices of unlisted infrastructure investments over the past 15 years; size, leverage, profits, term spread, value and growth. To these usual suspects, one can add sector and geographic effects. The result is an unbiased view of the evolution of prices (price-to-sales and price-to-earnings ratios).

Thierry Déau, Chairman of LTIIA said: “This new research shows that infrastructure valuations make sense today but also that focusing on systematic risks is an important aspect of value creation for investors in infrastructure. The existence of “value” effect for greenfield projects is good illustration of this fact.”

Blanc-Brude added: “Unlisted infrastructure prices should continue to be driven by common risk factors, some of which are relevant across asset classes. Unlisted infrastructure equity is actually found to be somewhat correlated with public equities, but also to have a different profile. Higher dividend pay-out ratios make future revenues more valuable today, while higher financial and operational leverage make future profits more uncertain.”

The paper concludes that average valuations have reached a plateau since 2016. Two of the main drivers of the slowdown of prices are the impact of the leverage factor and of interest rates on discount rates.

Download the full paper here.

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About EDHECinfra:

EDHEC*infra* is an academic research organisation that provides a standard reference for infrastructure investment performance. We produce impartial research and performance benchmarks that aim to improve transparency and efficiency for investors in infrastructure.

ABOUT LTIIA:

Founded in 2014, LTIIA gathers investors that collectively manage in excess of 12 trillion dollars of assets and that include some of the most active investors globally in the field of long term investment in infrastructure. The Association's three key priorities at the core of its action: (i) proactive engagement with public stakeholders to support attractive investment frameworks, (ii) development of financial performance benchmarks to promote infrastructure as an asset class, and (iii) definition and sharing of best practices in relation to Environmental, Social and Governance issues. See www.ltiia.org for more information.