First Sentier Global Listed Infrastructure Fund
Monthly review and outlook

Monthly Review and Outlook | January 2024

Market review

Global Listed Infrastructure dipped in January, giving back some of the strong gains achieved during the December quarter of 2023. The best performing infrastructure sector was Other (+6%), which consists of ports, satellites and merchant power operators. Emerging Markets (EM) ports led this group of stocks higher. Railroads (+1%) also increased, as investors focused on the scope for North American freight rail volumes and margins to improve over the course of coming months. Japanese passenger rail stocks were buoyed by positive passenger trends. The worst performing infrastructure sector was Towers / Data Centers (-7%), as positive economic indicators saw interest rate cut expectations subside.

The best performing infrastructure region was Japan (+5%) owing to strong returns from the country's electric utilities (not in our Focus List). The worst performing infrastructure region was the United States (-4%), as a protracted timeframe for expected interest rate cuts weighed on its Towers and Utilities.

Fund performance

The Fund returned -1.9% after fees in January[1], 78 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was Italian multi-utility Hera (+10%). Operating primarily in North-East Italy, the company owns a diversified portfolio of gas, electricity and water distribution assets, along with waste collection and treatment businesses. The announcement of its 2023-2027 business plan, which outlined a higher earnings growth rate alongside a robust capex investment plan and solid balance sheet metrics, met with a warm market reception. West Japan Railway (+5%), whose rail network covers Japan's Kansai region and includes the major cities of Osaka and Kyoto, gained as investors anticipated strong 2024 earnings.

French-listed infrastructure construction and concessions company Vinci (+3%) rose after raising its free cash flow forecasts for the year. Favourable market trends and the integration of recent acquisitions are proving supportive of its Energies division, which provides technical services for energy, transport and communication infrastructure. Passenger volumes remain healthy for Swiss airport operator Flughafen Zurich (+2%), which announced new tenants, and expansions for some existing ones, at its Circle property business during the month. Budget airline Ryanair revealed it was aiming to grow passenger traffic to Spain from the 55 million forecast for 2024 to 77 million by 2030 – a move which would benefit Spanish airport operator AENA (flat).

The worst performing stock in the portfolio was Chinese water utility Guangdong Investment (-20%), which is predominantly involved in water supply and sewage treatment as well as other businesses including property development. The company fell after a write-down for some property inventory in 2023, owing to the continued downturn in the real estate market, sparked concerns that its distribution growth rate may be affected. Other Chinese infrastructure holdings including Beijing Airport (-1%) and gas utility ENN Energy (+1%) held up better, aided by undemanding valuation multiples. Chinese toll road operator Jiangsu Expressway (+6%) was supported by the prospect of recovering traffic volumes in 2024. Investors also welcomed management comments on the firm's strategic direction, which reiterated the firm's commitment to its core toll road assets.

Healthy economic data from the US weighed on tower operators American Tower (-9%) and Crown Castle (-6%), as investors drew the conclusion that hoped-for interest rate cuts may take longer to implement than market consensus had previously assumed. During the month Crown Castle delivered better than expected December quarter earnings, while American Tower announced it had sold its India tower business to an unlisted infrastructure manager for US$2.5 billion.

Utilities also came under pressure during the month. US regulated utility Eversource Energy (-12%) fell after writing down the value of its stakes in three Atlantic Ocean offshore wind projects, that it is in the process of divesting, by a total of between US$1.4 billion and US$1.6 billion. UGI Corp (-10%) lagged as the market was disappointed with the progress of their Strategic Review and milder winter weather. However some of these losses were recouped in early February as they announced an update may be provided with the next quarterly earnings release. UK renewables and networks-focused utility SSE plc (-8%) also underperformed as negative news from offshore wind peers and concerns for lower power prices weighed on its share price.

Fund activity

The Fund divested its holding in US east coast freight rail company CSX Corp, on a relative valuation basis. The proceeds were used in part to add to an existing position in east coast peer Norfolk Southern, which we believe has greater scope to increase earnings and operational efficiency metrics from current levels.

[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.

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.

Earnings growth for the asset class is likely to be underpinned by a number of structural growth themes over coming years. We remain optimistic about the substantial investment opportunities associated with the decarbonisation of the world's energy needs. Utilities, which represent about a half of the global listed infrastructure opportunity set, are positioned to derive steady, regulated earnings growth by building solar and wind farms, and by upgrading and expanding the networks needed to connect these new power sources to the end user. Overall electricity demand is expected to grow in many regions, driven in part by additional data centres needed to support internet activity and the AI boom.

Digitalisation is another key theme for the asset class. We expect structural growth in demand for mobile data (underpinned by an ever-growing reliance on digital connectivity) to support long-term earnings growth for Towers and Data Centres. The adoption of 5G technology over coming years will require networks to handle increased data speed, as well as a much higher number of connected devices.

There remains scope for continued recovery in the transport infrastructure space. We believe toll roads represent exceptional value at current levels, with traffic volumes proving resilient and inflation-linked concession agreements helping to support earnings growth. We also have a largely positive view of North American freight railroads. While the sector faced challenges in 2023, these companies are unique and valuable franchises. Their wholly-owned track networks are high quality infrastructure assets which can never be replicated. They typically operate under duopoly market conditions, with significant numbers of captive customers such as grain, chemical and auto producers giving them strong pricing power over long haul routes. Improving operating efficiency provides further scope to grow earnings. However, we believe some caution is merited currently, owing to recent volume softness.

Source : Company data, First Sentier Investors, as of 31 January 2024.