Industries
The infrastructure boom gets underway

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Public spending on Australian infrastructure is set to accelerate as a cashed-up New South Wales plays catch-up.

Transurban and co’s applauded $1.9 billion purchase of the BrisConnect motorway cements one of the best collections of toll roads in the world and also endorses confidence bestowed on infrastructure plays by fund managers.

Private investors and self-managed super funds have embraced infrastructure as a defensive play, lured by a protracted search for yield amid unprecedentedly low borrowing rates.

Transurban, which targets Northern Virginia and the eastern seaboard of Australia, has an interest in fourteen road networks and has been steadily increasing cash flows and the stock is up around $1 from June lows at $10.32.

Other infrastructure stocks such as Sydney Airport have also been embraced by investors, particularly as once-reliable sectors such as retailing, banking and mining have experienced deep shake-outs.

Research shows that core infrastructure products not only outperform major competing asset classes while experiencing less volatility, they only modestly under perform much higher-risk investments, such as private equity.

Institutional investors continue to increase their allocations to infrastructure based on diversification, inflation protection and yield, as core infrastructure typically exhibits strong cash flow generation, says Matt LeBlanc, JP Morgan Assets Management’s Chief Investment Officer, OECD Infrastructure.

“For stable long-term returns, that may be a pretty good addition to the portfolio,” LeBlanc told attendees at the Atchison Consultants Global Real Assets forum.

LeBlanc says there is competition to invest in many 'trophy' assets with a value over $1bn from mandated investors, and there may be a premium to participate as a result.

Meanwhile, some middle market deals offer better value, he says.

JP Morgan breaks core infrastructure down into six categories: regulated assets such as energy; transportation like toll roads and seaports; power generation including wind and solar; social infrastructure like hospitals and schools; communication networks and midstream assets such as pipelines and storage.

Source: JP Morgan Asset Management

As Alan Kohler noted on Tuesday, the Westpac-owned infrastructure fund, Utilities Trust of Australia, has earned a compound return of 11.43 per cent since its inception in 1994.

“Any couple that got that sort of return over 40 years would be making $255,000 a year in retirement and too busy taking luxury cruises and drinking mint juleps by the pool to worry about the pension,” Kohler observes, adding that Malcolm Turnbull would do well to focus on getting bank-owned super funds to invest more in infrastructure.

These statistics are timely as public spending on Australian infrastructure prepares to take off dramatically, filling in some of the gap left by the mining boom.

Projects are slated across the country but are concentrated most in NSW out to 2020 due to a sizable catch up on years and years of under-investment, says ANZ Research's co-head of Australian Economics Felicity Emmett.

"We do have a bit of a pick-up on the next few years in our public spending forecasts and that's due to the major infrastructure spending," Emmett says.

"NSW was in a good position because they had assets to sell and also the economy is in very good shape and revenues from stamp duty are very strong," she says, adding that this has been "a huge thing, not just for the actual spend, but for the huge amount of confidence it's generated in the economy."

The political climate is also favourable to exceeding longer term targets, ANZ says.

"We actually think there's a good chance infrastructure spending will come through a bit stronger in those outer years and certainly [Prime Minister] Malcolm Turnbull seems more open to borrowing to plan this larger pipeline of infrastructure spending," says Emmett.

Source: JP Morgan Asset Management

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