International Public Partnerships

FHSP partial realisation with £30m exit proceeds

Investment companies
Infrastructure

International Public Partnerships (INPP) has announced the partial disposal of its Public-Private Partnerships (P3) investment providing family housing for US service personnel. The £30m proceeds take INPP's realisation proceeds over the last 18 months to c £260m (or c 10% of INPP's portfolio value), with all exits in line with or slightly above previous carrying values. The sale proceeds will be used to support the recently increased and significantly accretive share buyback programme and towards funding its existing £35m near-term investment commitments across the transport, education and digital sectors (which INPP's manager expects to be drawn until end-2025).

INPP's Family Housing for Service Personnel (FHSP) investment relates to seven operational P3 projects that have delivered over 21,800 family homes across 19 operational US military bases. It is INPP's longest standing P3 asset in the US, with its first investment in 2015. The company's investment in FHSP is in the form of mezzanine debt and the remaining investments, after the sale, were valued at £73m at 30 June 2024. Mezzanine investments form part of INPP's risk capital investments (99% of end-June 2024 portfolio), consisting of project-level equity and/or subordinated shareholder debt.

The partial disposal of the FHSP investment is consistent with INPP's disciplined approach to capital allocation. As part of this approach, INPP accelerated the growth in dividends to 5% in FY23 and 3% in FY24. Going forwards, its capital allocation approach will continue to be guided by three principles: 1) targeted asset disposals to both demonstrate portfolio value and reallocate capital; 2) prudent use of INPP's corporate debt facility (which was fully repaid and downsized to £250m earlier this year); and 3) use of exit proceeds for accretive share buybacks and new investments (subject to their medium- to long-term economics being more attractive than share repurchases). INPP's buyback programme was introduced in early 2024 and was recently increased in size from £30m to up to £60m, of which INPP had invested £22.5m as of 27 September.

The latest transaction is another indication of the company's continuing efforts to narrow the discount to NAV. As we wrote recently in our update note in September 2024, although these have gained some traction, the discount remains at c 14%. This is not out of line with the broader investment company sector and a greater appreciation of the quality of INPP's cash flows, a decline in interest rates and the prospects for accretive reinvestment may prove more potent factors in a re-rating. Meanwhile, the shares offer an attractive 6.5% yield and the expected future return from investing at the current discount to NAV is more than 9% pa.

2 October 2024

Price	**128.4p**
Market cap	**£2,430m**
Total assets*	**£2,852m**

NAV per share*	149.5p
Discount to NAV	14.1%

*As at 30 June 2024.

FY24e DPS	8.37p
Yield	6.5%
Ordinary shares in issue**	1,893m

**Excludes 17.9k shares held in treasury.

Code/ISIN		INPP/GB00B188SR5
Primary exchange		LSE
AIC sector		Infrastructure
Financial year-end		31 December
52-week high/low	139.2p	115.4p
NAV high/low	155.2p	149.5p

Gearing

Company borrowing*	N/A
Asset leverage*	68%

*As at 30 June 2024.

Fund objective

International Public Partnerships is an infrastructure investment company that listed in 2006. It invests in a diversified portfolio of global public infrastructure assets and businesses, with a focus on availability-based or regulated revenues. It aims to provide investors with a consistent and predictable return from assets that meet societal and environmental needs, both now and in the future.

Bull points

- Operates in a structurally supported sector.
- Financial returns are consistent and predictable, and with good inflation linkage.
- Established, specialist, well-resourced manager with a global presence.

Bear points

- Higher capital costs are a headwind to new portfolio investment.
- Sector has re-rated with higher interest rates.
- Differing discount rates across the sector are difficult for investors to assess.

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