Digital and communications infrastructure is an opportunity but not a free-for-all

October 2021

The coronavirus pandemic has boosted demand for digital and communications infrastructure, but surging prices mean investors need to be discerning.

The sub-sector comprised 15.1% of all infrastructure deals in 2020 compared to just 5.7% in 2019, according to Frontier's Head of Real Assets, Manish Rastogi.

Deal flow has continued to rise this year as investors back specific macro growth trends such as the shift to working and playing remotely, as well as generating more data that needs to be secure yet quickly accessible.

"There's a level of macro thematic around digital infrastructure which means it will continue to be an attractive asset class, but also one which requires continued investment," Ani Satchcroft, Senior Managing Director, Macquarie Asset Management, said.

About 85% of digital infrastructure deals are being completed across Europe and North America, although Australian activity is starting to rise. Fibre and network company Vocus was sold to MIRA and Aware Super in July 2021 for $US3.396 billion at an EBITDA multiple of 12x.

However, some recent offshore deals for fibre or data centres have been completed at 25x+ EBITDA multiples.

KKR Managing Director, Waldemar Szlezak, said declining interest rates had caused multiple expansion but investors sometimes overestimated certain asset's growth potential.

"It may actually not play out, and you can look at some examples where towers have been mispriced and the growth never really came through. So, I think that one has to be cautious… it's easy to get smitten by the macro trends."

Szlezak said they were focused on 'last mile' investments, as well as data centres, but towers were generally too expensive.

"I would love to own more towers if I could – we just can't afford them. It's too expensive. I think the growth rates are not there and if interest rates rise, I think you'll probably see multiples correcting a little bit."

Satchcroft said the market could be split into physical assets (such as towers or fibre assets) and non-physical assets that were protected by a network effect (such as platforms or land registries).

"These assets are still on a journey in terms of the investment community, understanding the risk associated with assets, and I would venture to say that in a few years there will be a better understanding and acceptance of the risk profile, and therefore a re-rating available."

Morgan Stanley Infrastructure Partners Managing Director and Co-Head of European Investing, Yacine Saidji, said investors need to select assets where they can use their competitive advantage to build value. For example, digital infrastructure that relies on accessing data – such as registry assets or property settlement platform PEXA – still has untapped potential.

"That element of creativity and actually helping those businesses work out where they need to be in the next 5-10 years and future proofing them, that's a really important aspect for us. It's a good way where you can create value in those assets and for the broader community."

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