ATLAS INFRASTRUCTURE

EARNINGS & DIVIDEND IMPACTS FROM COVID-19 – Q3 UPDATE

1. Introduction

In May, ATLAS produced a paper examining the impact from COVID-19 on dividends in its portfolio assets and the broader listed infrastructure universe. Not surprisingly, there was a clear bifurcation between transport assets which had their demand truncated by government policies and utility assets which held firm. Regional differences were also emerging. Only c.3% of North American listed infrastructure assets within the ATLAS universe had announced a dividend change. This compared to 36% in UK/Europe. A final, more nuanced theme that was developing was for some infrastructure companies (which had no demand or financial need to conserve cash) to suspend or defer dividends in order to maintain their social contract and to avoid being seen as 'profiteering' during periods of extreme financial hardship.

In this paper, we have updated the previous analysis to examine any changes to expected forward yields post the Q2 reporting season. We have also expanded the analysis to include an examination on EBITDA and earnings expectations. We compare the ATLAS portfolio with the listed infrastructure sector and to general equities and assess the extent to which the impact of both Covid 19 and the resulting global recession has been captured in dividend and earnings expectations to date.

2. Impact of Covid-19 on dividends

ATLAS Portfolio dividend impact and update on Q1 outlook

Forward dividend expectations did not change materially for portfolio companies at the close of Q2 results compared with May 2020. In the May-August period, government policies in Western developed countries generally recognised an economic recovery imperative and pushed for re-openings. Consumer behaviour worked in tandem by cautiously favouring a return to normalcy. Consequently, for infrastructure companies with demand exposure, no broad based, second leg of downward dividend revisions were issued during the quarter. Indeed, some toll road and rail company volumes surprised on the upside. Finally, we also did not see further dividend change announcements for reasons of financial prudence or the 'just in case' rationale.

Overall, and as a result of the factors outlined above, we saw a modest 1% increase in DPS expectations for portfolio companies between the end of Q1 reporting season and the end of Q2 reporting season. The ATLAS portfolio's weighted average forward yield now stands at 4.4%[1] which compares to a trailing weighted average yield of 5.4%. The same metrics for the ATLAS portfolio were fairly similar in May, namely a forward yield of 4.5%, a trailing yield of 5.8%.

[1] Dividend yield is a look-through forward looking dividend yield, gross of fees, gross of withholding tax and does not account for portfolio level cash allocations. Individual investors will receive less than the gross yield

Portfolio companies as at 7 August 2020

Company	Sector	Current expectations for FY1 / FY0	Change in expectations (Q2 20/Q1 20)
Terna S.p.A.	Electric	8%	0.1%
Norfolk Southern Corporation	Railway	5%	-0.5%
Pinnacle West Capital	Electric	5%	-0.3%
ALLETE, Inc.	Electric	5%	0.0%
Chorus Limited	Comms	4%	4.2%
Consolidated Edison, Inc.	Electric	3%	0.1%
Snam S.p.A.	Gas	3%	-2.4%
Avangrid, Inc.	Electric	1%	-1.3%
Edison International	Electric	1%	-0.3%
Redes Energeticas Nacionais SA	Electric	0%	0.1%
Red Electrica Corp. SA	Electric	-2%	-2.6%
AusNet Services Limited	Electric	-8%	0.3%
Spark Infrastructure Group	Electric	-11%	0.2%
SSE plc	Electric	-18%	3.6%
Eutelsat Communications SA	Comms	-28%	-0.6%
Atlas Arteria	Toll Road	-49%	40.0%
Aeroports de Paris SA	Airport	-100%	0.0%
Aena SME SA	Airport	-100%	0.0%
Getlink SE	Railway	-100%	0.0%
ATLAS Portfolio (weighted avg)		**-20.4%**	**1.3%**

Source: ATLAS Infrastructure estimates, company guidance, FactSet consensus

Comparison with the Infrastructure universe

The tables below show the number of companies with announced or expected dividend cuts thus far in 2020 in the portfolio compared with the universe. Similar to the analysis conducted in May, the ATLAS portfolio shows a slightly higher incidence of portfolio cuts due mainly to the exposures to both transport infrastructure (Airports and Toll Roads) as well as the exposure to UK / Europe and Asia Pacific compared with North American companies. However, what is notable is that there has been relatively little change in expected dividend cuts between the post Q1 period and now.

Sector	*Portfolio dividend cuts*	*Q2 / Q1 change*	Universe dividend cuts	*Q2 / Q1 change*	Proportion Portfolio	*Q2 / Q1 change*	Proportion Universe	*Q2 / Q1 change*
Airport	2	*-1*	6	*0*	100%	0%	100%	0%
Toll Road	1	*0*	7	*+3*	100%	0%	100%	*0%*
Railway	1	*0*	4	*0*	50%	0%	40%	*0%*
Communications	1	*0*	2	*0*	50%	0%	25%	*0%*
Electric	2	*0*	4	*+1*	18%	-4%	8%	*2%*
Gas	0	*0*	0	*-1*	0%	0%	0%	*-10%*
Water	0	*0*	1	*+1*	0%	0%	13%	*13%*
Seaport	0	*0*	1	*0*	0%	0%	100%	*50%*
Renewable energy	0	*0*	0	*0*	0%	0%	0%	*0%*
Pipelines and Storage	0	*0*	0	*-1*	0%	0%	0%	*-14%*
Total	7	*-1*	25	*+3*	37%	-5%	22%	*+2%*

Source: ATLAS Infrastructure estimates, company guidance, FactSet consensus

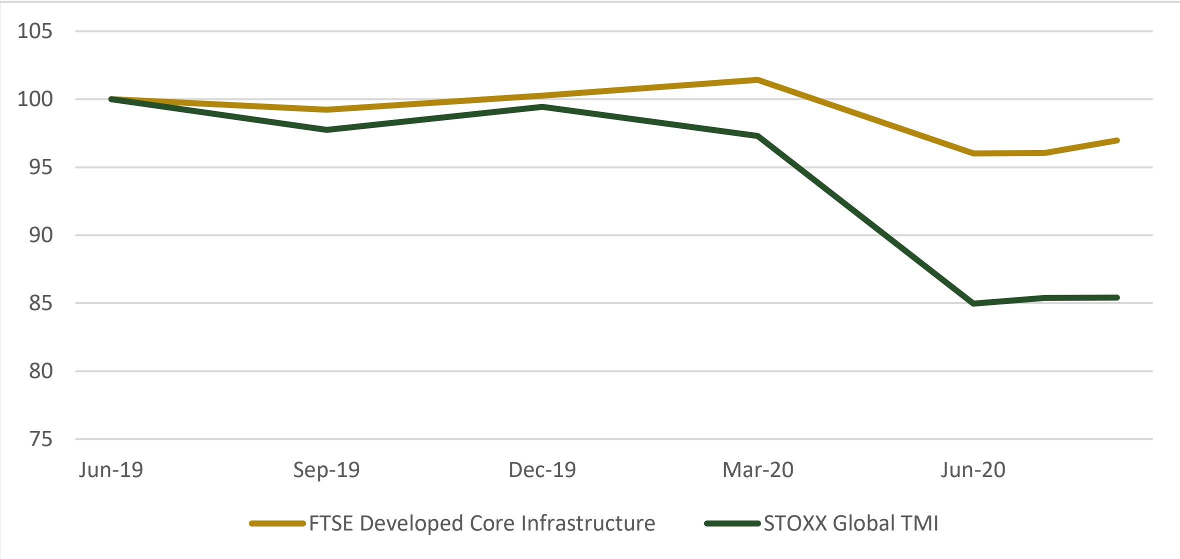
Region	Portfolio dividend cuts	*Q2 / Q1 change*	Universe dividend cuts	*Q2 / Q1 change*	Proportion Portfolio	*Q2 / Q1 change*	Proportion Universe	*Q2 / Q1 change*
Australia / NZ	2	*0*	5	0	50%	*0%*	63%	*0%*
Asia - Developed	0	*0*	4	1	0%	*0%*	60%	*+23%*
UK / Europe	5	*-1*	15	+3	56%	*1%*	43%	*+6%*
North America	0	*0*	1	-1	0%	*0%*	2%	*-2%*
Total	7	*-1*	25	+3	37%	*-5%*	22%	*+2%*

Source: ATLAS Infrastructure estimates, company guidance, FactSet consensus

Comparison of infrastructure universe with general equities

With Q2 reporting completed, it is now interesting to look at the index level development of consensus dividends and contrast the development of listed infrastructure against global equities over the course of 2020. The chart below looks at the development of FY1 index weighted dividend per share expectations – indexed back to June 2019.

Global listed Infrastructure vs Global Equities FY1 DPS expectations



Source: FactSet consensus

Hence over the past 15 months we have observed the following:

- Total DPS fell less than 5% for the infrastructure index compared to a 15% fall for general equities (this highlights that, although 20% of companies in the sector have cut expected dividends, the majority of the cuts have not been material and have been offset by dividend increases elsewhere)
- The DPS for infrastructure stabilised in around June/July and appears to be in the early stages of an upward revision, this is certainly consistent with the data from our portfolio companies which has shown a small increase
- In contrast, global equity DPS appears to have bottomed for now but is not yet showing signs of recovery and may yet move down again if the macro impacts of Covid continue to develop during Q3 and Q4

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3. Impact of Covid-19 on operational earnings expectations

Changes to EBITDA expectations in the ATLAS portfolio over the past 6 months

We believe that this analysis can provide a clearer picture of the impact on the underlying assets as it will exclude the element of management discretion in determining a dividend payout.

The table below shows the development of EBITDA expectations for companies in our portfolio over the course of 2020 and highlights those companies that showed material (i.e. >+/- 5%) changes in FY2020 EBITDA expectations over the following time periods:

- May 2020 expectation vs December 2019 expectation – this period captures the start of the Covid pandemic up till the conclusion of the Q1 2020 earnings reporting season and represents the first 'estimate' of the impact of Covid on assets based on real time data and management commentary and outlooks
- September vs May 2020 expectations – this period represents the end of Q1 reporting to the end of Q2 reporting and represents how Q1 expectations have changed based on the development of both the Covid virus and the change in expectations for the broader economic impact

Company	Sector	Material Change in 2020 EBITDA expectation post Q1	Material Change in 2020 EBITDA expectation post Q2	Comments
		Local	Local	
Eutelsat Communications	Comms	-6%	-	Full year results in line with expectations - maintained EBITDA margin; Free cashflow target lowered from 500m to 400-450m
Aeroports de Paris SA	Airport	-62%	-61%	Elongated traffic recovery profile in line with IATA/EuroControl projections. Management now expect H2 2020 pax -55-65% year on year.
Edison International	Electric	-	-	Management guided to higher FY20 O&M due to Covid-19. The increase in FY1 EBITDA v FY0 EBITDA is caused by rate base growth, increase in SCE reg. equity ratio from 48% to 52% and receipt of tax allowance in regulated revenues.
ALLETE, Inc.	Electric	-11%	-	Management expect 2 large industrial customers to have idled production and -5% volumes for commercial/other industrial customers for the rest of FY20. Mid-point EPS guidance reduced from $3.55 to $3.35 per share.
Aena SME SA	Airport	-60%	-28%	Elongated traffic recovery profile in line with IATA/EuroControl projections. IATA now expects 2020 Spanish air traffic -59% year on year, which Aena is implying as guidance
Avangrid, Inc.	Electric	-7%	-	Lower power prices and sale of assets (recycle capex)
Spark Infrastructure Group	Electric	-8%	-	Immaterial change due to Covid customer measures
Getlink SE	Railway	-40%	-	Getlink gave guidance of 350m EBITDA for 2020 which is well below 550m last year but slightly above our first estimate and markets first estimates
Norfolk Southern Corporation	Railway	-16%	-	NSC had weaker volumes than expected but better cost cutting
Terna S.p.A.	Electric	-	-	Immaterial change due to Covid customer measures
Red Electrica Corp. SA	Electric	-	-	Immaterial change due to Covid customer measures
SSE plc	Electric	-5%	-11%	Management expect FY21 covid P&L impact of £150—250m before mitigation, but reducing capex and opex by combined £250m to ensure cash impact negligible.
Redes Energeticas Nacionais	Electric	-	-	Immaterial change due to Covid customer measures
Atlas Arteria	Toll Road	-39%	-	Greenway (Virginia, US) traffic continued at depressed levels through Q2, whereas APRR (France) traffic improved materially into the end of Q2 and early in Q3, which buoyed the group result
Snam S.p.A.	Gas	-	-	Immaterial change due to Covid customer measures

Company	Sector	Material Change in 2020 EBITDA expectation post Q1	Material Change in 2020 EBITDA expectation post Q2	Comments
Consolidated Edison, Inc.	Electric	-	-	EBITDA reduction of c. $50m in 1H20 mostly due to foregone late payment charges and increase in allowance for uncollectible amounts
AusNet Services Limited	Electric	-	-	Immaterial change due to Covid customer measures
Pinnacle West Capital Corporation	Electric	-	-	Given the impacts of Covid, management reduced the 2020 weather-normalized year-over-year sales growth expectations from 1% to 2% growth to flat to negative 1%. Offsetting the 2020 sales decrease is a reduction in O&M expenses.
Chorus Limited	Comms	-	-	Immaterial change

Source: ATLAS Infrastructure estimates, company guidance, FactSet consensus

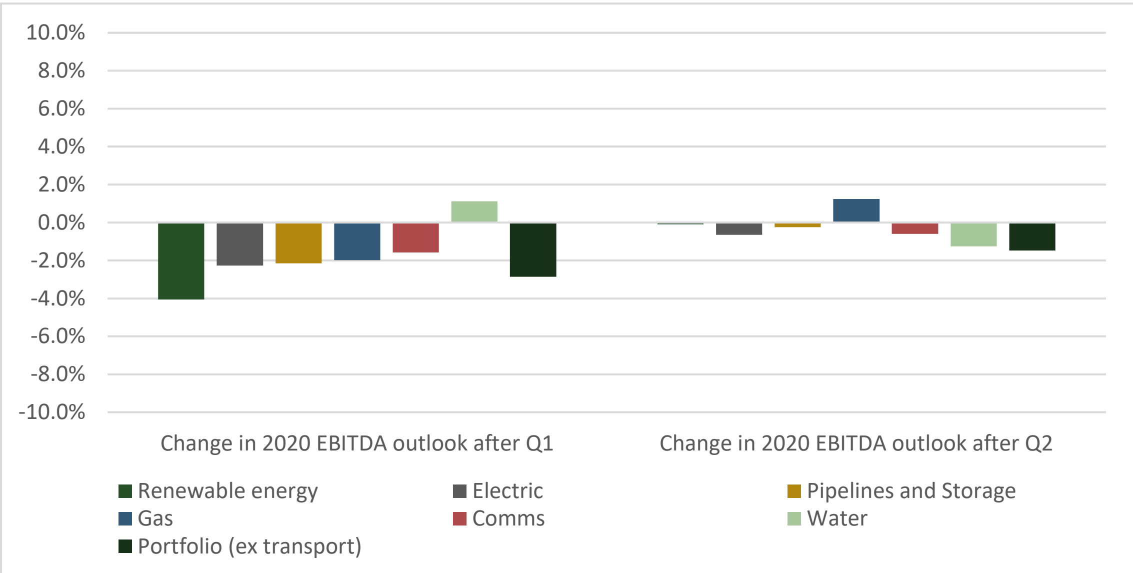
Comparison with the Infrastructure universe

We have undertaken the same analysis across the listed infrastructure universe. The charts below show the development of FY1 EBITDA expectations over the time periods:

- Post Q1 - Dec 2019 to May 2020
- Post Q2 May 2020 to September 2020

We have split the charts between transport assets and non-transport assets. The reason is that the changes for the non-transport assets are substantially less than for the transport assets over the time period.

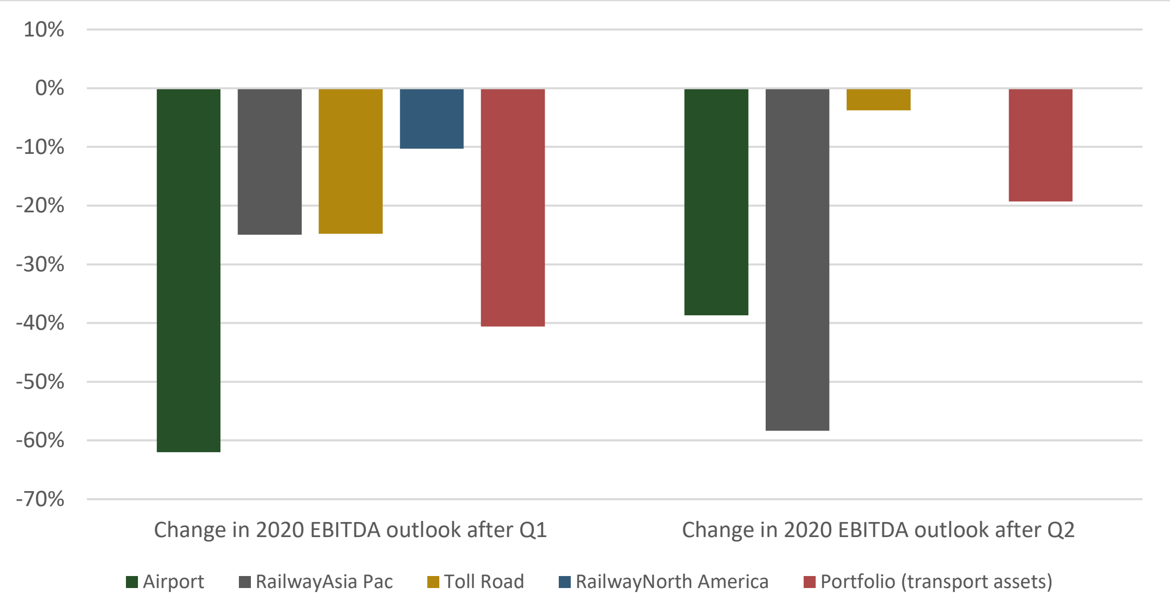
Listed Infrastructure sector FY1 EBITDA expectations change (ex transport assets)



Source: ATLAS Infrastructure estimates, company guidance, FactSet consensus

For all listed infrastructure, excluding transport assets, the end of first quarter reporting saw moderate EBITDA expectation declines. In particular we note that renewable energy saw the largest decrease in expectations in Q1 (following the wholesale electricity price declines in the quarter). Changes after 2nd quarter were minimal (+/- 1%) reflecting the largely defensive nature of the underlying assets and the lack of sensitivity to the macro environment. The ATLAS portfolio assets largely followed the above trends with the most noticeable declines from our holdings in Avangrid and SSE (renewable energy exposure).

Listed Infrastructure sector FY1 EBITDA expectations change (transport assets)

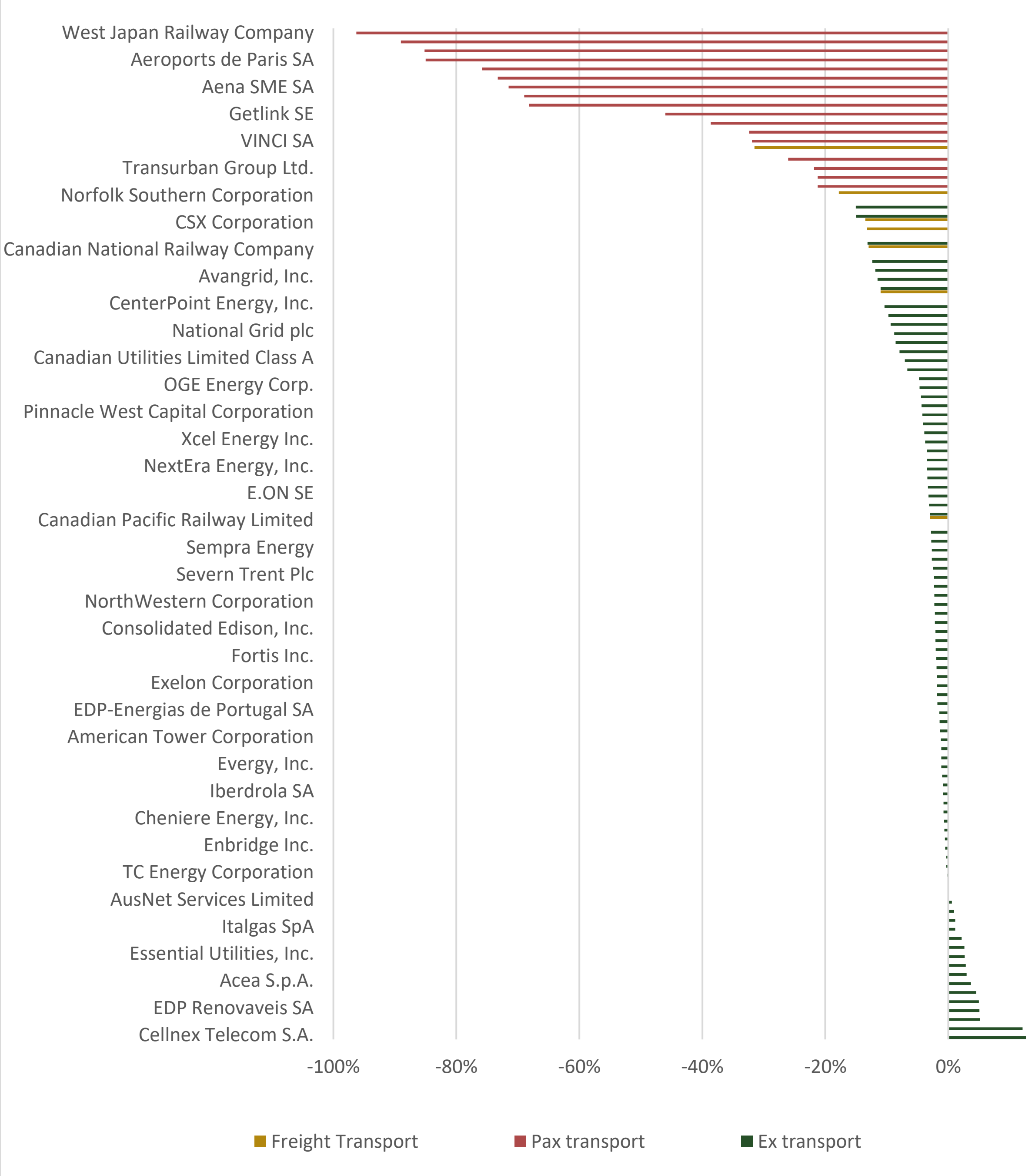


Source: ATLAS Infrastructure estimates, company guidance, FactSet consensus

For transport assets, most heavily impacted by the policy response to Covid 19, the development of EBITDA expectations has been more varied. For Toll roads and Freight rail (North American rail), expectations have stabilised during Q2 as partial re-openings have supported return of domestic truck and car traffic as well as freight rail. Conversely airport expectations have continued to decline as early optimism over the pace of travel resumption were impacted by continued Covid restrictions. Japanese Rail was a standout where the unexpected resumption of restrictions in Japan in May caused a large reduction in expectations over Q2. The ATLAS portfolio again followed a similar trend with our holdings in toll roads and north American rail offset by our European Airport exposure.

Combining the impacts of Q1 and Q2 changes to expectations produces the following overall outcome for the listed infrastructure sector with the impact on the passenger transport vs freight transport sectors highlighted. This emphasises the scale of the impact of the policy restrictions on transport assets compared with the relatively low impact of the broader Covid crisis and global recession on the remainder of the sector.

Listed Infrastructure sector FY1 EBITDA expectations change (Dec 2019 to September 2020)

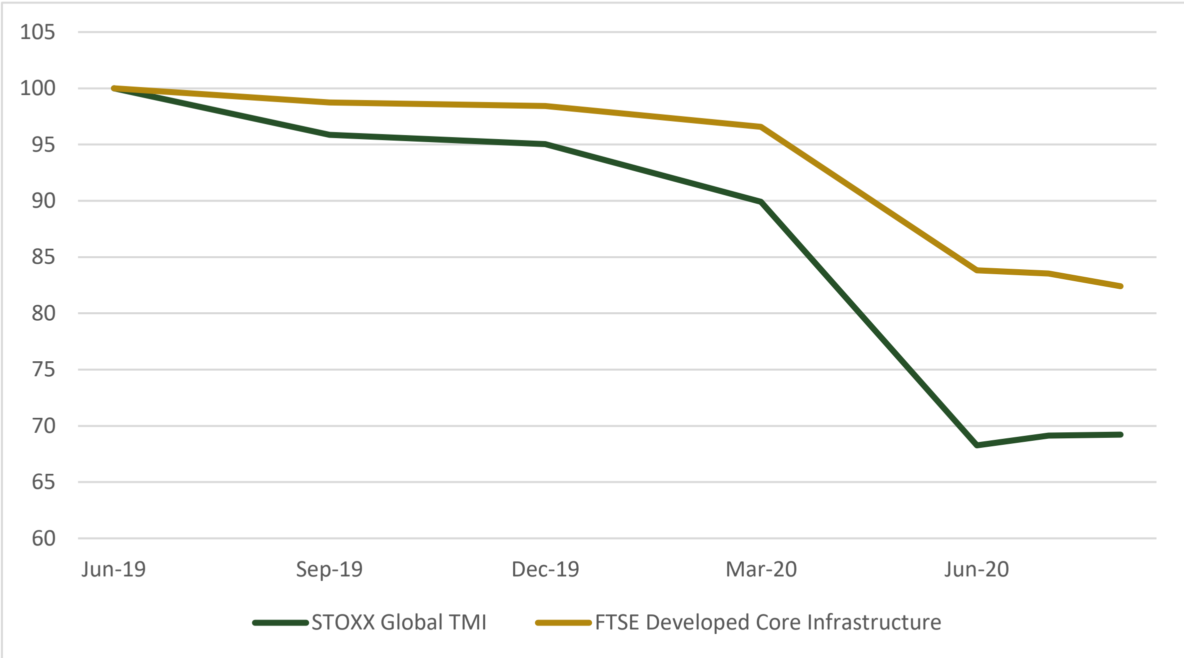


Source: ATLAS Infrastructure estimates, company guidance, FactSet consensus

Comparison of listed infrastructure and general equities

The chart below makes the same index level comparison for Earnings as we did for dividends in the prior section:

Global listed Infrastructure vs Global Equities FY1 EPS expectations



Source: FactSet consensus

Over the past 15 months we have observed the following:

- Total EPS fell 16% for the infrastructure index compared to a 30% fall for general equities, this is a larger decline than we saw for DPS and highlights the extent to which companies (mostly in North America) have been increasing dividend payout ratios for 2020
- The EPS for infrastructure has declined slightly since May, most likely as a result of some large revisions in Japanese assets
- Global equities have remained stable since May, but at a lower level

4. Conclusion

When we last reviewed the impact of the Covid-19 crisis on expected dividends in May 2020, the picture that emerged at that stage was that the dividend cuts for companies in the ATLAS portfolio and the broader universe were mostly reflected the impact of direct lock-down policies. At the time we noted that the next phase of changes to dividend and earnings expectations would be driven by the anticipation of the 2nd order impacts of the crisis (recession and employment) as well as the continued development of the virus and the policy actions taken to contain it.

The updated analysis as of September has confirmed a number of expectations and assertions from our earlier analysis i.e.

- The majority of infrastructure assets have seen very low impact from either the Covid crisis or the broader economic impact of the policy response.
- We expected that infrastructure companies that had not seen material impacts to dividends and earnings after Q1 would be unlikely to be impacted by the 2nd order economic impacts. Thus far we have seen this stability in both dividend and earnings expectations for the majority of the portfolio and the listed infrastructure space

However, the analysis has also identified some trends that were not expected in May, namely:

- The introduction of travel restrictions in Japan to cope with a '2nd wave' led to a material revision to Japanese rail asset earnings expectations
- The lack of co-ordination between Governments on air-corridors or on quarantine protocols have led to a revision downwards in market expectations for airport volumes in 2020

Going forward, and given current expectations, we would highlight the following factors impacting our investments in listed infrastructure

- We anticipate market expectations around travel volumes will remain very volatile and could again either become too optimistic or too pessimistic based on short term news flow. Thus far ATLAS has had to make only small revisions to our forecasts since May and the large changes in expectations have enabled us gain attractive entry and exit points for our investments
- Overall, the stock market performance of the listed infrastructure sector has been below global equities in 2020 despite the superior performance on earnings and dividends. We believe that this positions the sector and our portfolio to deliver strong and resilient forward returns and income, especially as the 2nd order impacts of Covid become more apparent in the global economy

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