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Macquarie Infrastructure Corp – 3Q20 Update
Maintain BUY

We are maintaining our Buy recommendation on MIC after it announced it has reached an agreement to sell its IMTT (storage tank) unit. We had estimated it was worth $2.6 billion and the final sale came in at $2.685 billion. That business is healthy with inventories high and all the capacity that came up for renewal was completed at a higher rate. The sale is expected to close in 4Q20 or early 1Q21. We think the rest of the company brings the total value per share net of debt to about $45 and it is expected to be unlocked within a year. See our April 2020 report for more details of how we arrive at that figure:

- **The key parts to this sale are that MIC will effectively retire all parent company debt - $400 million in convertible bonds.** There is $150 million drawn on the revolver but there is more than enough cash on hand to repay that too. **Second, shareholders will be paid a $10.75 per share dividend.**

- **Atlantic Aviation posted EBITDA of $54 million vs. $17 million in 2Q and Free Cash Flow was $39 million vs. $42 million y/y.** They are forecasting EBITDA for 2020 of $185-195 million vs. $276 million in 2019, they are seeing steady improvement as flying resumes.

- **The Hawaiian gas company has improved as Hawaii relaxed its quarantine issues.** EBITDA of $7 million matched 2Q and the company is free cash positive at $4 million for the quarter. Guidance is for $35-$40 million of EBITDA vs $60 million in 2019. As travel to Hawaii recovers, it should see a return to normal operations.

- **MIC expects that the gas utility will be sold next. It is smaller and would take about a year to go through the Public Utility Commission**. We estimate that this business is worth about $600 million, which is 10x the $60 million in EBITDA it regularly produces. It has under $200 million debt and is **worth about $4.50 per share** in our view.

- **That leaves Atlantic and if not sold, MIC speculated on the 2Q call that it would likely acquire the parent company and become effectively spun-off to shareholders as a pure-play of airport assets. <u>Management has a financial incentive to complete all of this by January 1, 2022.</u>**

- **At $30 per share, we see $10.75 and $4.50 net of debt for IMTT and Mic Hawaii. That values Aviation at $14.75 per share.** Normal operations are $276 million in EBITDA growing about 4%-5%. **The market is valuing that at 8.3x EBITDA. Airport assets trade at more than 20x EBITDA.** Atlantic Aviation has long-term concessions at airports to provide fuel, hanger space, catering, cleaning, de-icing… That would be tough to duplicate. If aviation is valued at 10-15x EBITDA – here is what the stock could be worth:

EBITDA Multiple	10.0	11.0	12.0	13.0	14.0	15.0
Value of Atlantic	$2,760	$3,036	$3,312	$3,588	$3,864	$4,140
Less Atlantic Debt	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Value to MIC Shares	$1,760	$2,036	$2,312	$2,588	$2,864	$3,140
Per share	$20.2	$23.3	$26.5	$29.7	$32.8	$36.0
Plus IMTT and HI	$15.3	$15.3	$15.3	$15.3	$15.3	$15.3
Total Sum of Parts	$35.4	$38.6	$41.8	$44.9	$48.1	$51.3

We are comfortable pointing to a valuation for MIC of $45-$48 per share that will be unlocked via three deals over the next year. We think the most problematic one has already been announced. Every $90 million in taxes and fees that may need to be paid with a sale of MIC Hawaii and Atlantic is about $1/share off these totals. IMTT is expected to cost $158 million in taxes and $53 million in various fees and the $10.75/share is net of those. If the aviation side becomes a pure-play company effectively spun-off to shareholders, that may save on taxes.

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor "red flag", but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company's recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company's recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

Key Points to Understand About the EQ Score

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The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

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