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Macquarie Infrastructure Corp. (MIC)

We are maintaining our BUY rating on MIC and not an EQ rating as the company is in the process of selling itself.

Summary

MIC's 1Q21 showed improved performance at the two operating subsidiaries. It raised 2021 guidance for both as each is showing improvement in demand. The largest news item is MIC said it is pleased with the interest it is receiving for the sale of Atlantic Aviation in particular and MIC Hawaii. **It expects to have an agreement to sell Atlantic Aviation in 2021 and still expects the regulatory issues to push MIC Hawaii's sale into 2022.**

As this moves forward, MIC has begun to unwind the shared services operation it has and get both companies set up as stand-alone entities. That should reduce overall corporate expense during 2021 too. **With the stock at $33 – we have a few tweaks to the expected valuation to be received after the sale of both entities and think the value could be as much as $45:**

- MIC has purchased the bulk of the $403 million in 2% notes. There is only $32.5 million outstanding at the end of April and it is reserving that amount of cash to resolve the remaining notes. There was a $126 million capital gain on IMTT's sale and MIC also reserved enough cash for that payment in April 2021**. That left it with $359.5 million in excess cash. Some of that retired $100 million of notes at MIC Hawaii along with $4.7 million in costs. The end result is there is $2.90 per share in cash net of debt.**

- Given that Free Cash Flow was forecast at $130-$160 million for 2021 and **MIC has now raised EBITDA forecasts for Atlantic Aviation by $20-$25 million and MIC Hawaii by $5 million and interest expense should decline with more debt retired and corporate costs reduced. We think the Free Cash Flow can exceed the $160 million target. That is another $1.80 in cash per share.**

- **MIC Hawaii** was being valued as having just over $190 million in debt, with the retirement of $100 million in notes, it only has $93.5 million in outstanding term loans. At 10x normal EBITDA less some taxes – **it should be worth about $5.00 per share instead of $3.50 in our prior forecasts.**

- Atlantic Aviation did $276 million in EBITDA in 2019 – Pre-Covid. Guidance is now $245-$260 million for 2021. **We believe MIC will be able to get a multiple of Pre-Covid figures as the business is recovering and cost savings are evident**. Signature Aviation was sold for 16x 2019's EBITDA. **That would value Atlantic net of $1 billion in debt at $39.00 per share.**

- The result is this stock may be worth as much as $45 per share net of a $3.40 fee to management. Also, with the IMTT sale which was signed on November 9, 2020 – shareholders were paid the $11 dividend two months later on January 8, 2021. **So if a sale of Atlantic occurs in 2021, a large part of the cash is likely to be received in less than 12 months and the rest in under 24 months.**

Sum of the Parts	**A.A. at $276**
IMTT sale net of debt	$989.0
Atlantic Sale at 16x EBITDA - debt	$3,414.0
MIC Hawaii at 10x EBITDA - debt - 21% tax	$421.5
Total Proceeds	$4,824.5
Management Fee	$295.0
Net to Shareholders	$4,529.5
Value per share	$51.70
less $11 already received from IMTT	$11.0
Remaining Value per share	**$40.70**
Cash on hand after bond tender and Hawaii debt payment	$254.8
Expected 2021 free cash flow	$160.0
Potential extra cash per share	**$4.70**

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 Concern)- 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 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 upcoming quarters. 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

The EQ Review Rating is much more than a blind, quantitative scoring method. While we utilize proprietary adjustments, ratios, and methods developed over decades of earnings quality analysis, the foundation of all of our analysis is reading recent SEC filings, press releases, conference call transcripts and in some cases, conversations with managements.

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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