Question and Answer

Andrew Rupert Pelham Harvey-Green
Forsyth Barr Group Ltd., Research Division

A couple of questions if I can. The first one, I guess, after the capital return, you've got around about 550

[Audio Gap]

And particularly, in that sort of development I talked about earlier. The other thing -- you'll get surprised about the sorts of sectors we're looking at. I don't think [indiscernible] operational projects, backing our operational capability. By definition, it doesn't extend across every infrastructure sector. Having said that, we haven't lost really confidence in, for example, Trustpower's ability to come up with renewable generation opportunities in the Australian market. I know these are short-term items [ph] here as they work through the renewable energy targets. I think I'm pretty optimistic about sort of 1 or 2 of their top projects getting away in the next few years. The issue with those projects, as you know, they are pretty sizable investments. They're similar to or slightly larger in some cases than Snowtown. Snowtown, AUD 450 million. So quite big things for the group. It goes back to that challenge I talked about during the presentation, where you're dealing with these big significant individual investment decisions. It makes capital management challenging. So Snow cap feels right now, we haven't -- I think we've made it through the internal CapEx ideas for the rest of the group, plus we'll be dependent on whether we're successful at generating some of these new contracts and securing them. Wellington will depend on whether we're making these commercial decisions I talked about on whether the runway goes ahead. And it's less of an issue, I guess, with a business like Metlifecare because it looks like they can fund their own growth.

Andrew Rupert Pelham Harvey-Green
Forsyth Barr Group Ltd., Research Division

Okay. And the second question I had was just around if you're able to give a bit more color, I guess, on dividend -- ordinary dividend going forward. Now I guess you've had a bit of a change in the structure of the portfolio with dropping out some operational earnings from the Lumo, which you have reduced interest costs going forward, but if you're able to give a little bit more color around that. I mean, is the dividend guidance completely unchanged from what you've said previously?

Marko Bogoievski
CEO & Director

Pretty much. So you should expect that sort of strong, mid-teen type growth. I might let -- I mean, Kevin, do you have a view you want to share?

Kevin Maxwell Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

Yes, absolutely. I mean, we are very focused, Andrew, as you know, on the cash flows of what we own in terms of the wholly-owned businesses. So here I'm talking about the dividends we receive from Trustpower, the subvention payment dividends we receive from Wellington Airport, the dividends from Metlifecare, and then the cash flows from investments like NZ Bus, previously Lumo. So we look at what the wholly-owned group produces. We look at what our commitments are in terms of the bonds and obviously, interest. We look at what our committed CapEx profile. So when we do all of that, we actually see, despite the changes in the portfolio, growth in the wholly-owned businesses' cash flows, operating cash flow going forward. And we also see in those businesses actually slightly reduced requirements for Infratil-funded CapEx. And both of those things give us confidence about the amount of cash flow that we can either choose to invest in new sectors for new opportunities or pay out as dividends to shareholders. So we understand that we're going through a period where yield is valued. Over the last, I guess, 5 to 7 years, we've focused on yields in terms of both returning imputation credits to shareholders but also having a growing dividend story. So looking forward, we can't predict the future, but the business forecasts that we are seeing and putting together are giving us confidence about continuing a double-digit

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growth in dividend per share. And I guess, the key to actually doing better than that will be whether we find some really good investment that we can allocate some of the capital that we already talked about. And if we can, I think that will, again, provide quite a lot of upside to dividends back to shareholders, and therefore yield, which in turn should be positive to the share price. So I mean, at the end of the day, it's all about driving value for shareholders through either capital growth or yield, and we're very focused on that.

Marko Bogoievski
CEO & Director

Any more questions from the room here at Wellington? Nothing from Tim Brown? Eileen, can you mind taking questions on the telephone, please?

Operator

[Operator Instructions] And your first question comes from the line of Grant Swanepoel from Craigs Investment Partners.

Grant Swanepoel
Craigs Investment Partners Limited, Research Division

Just a quick question on bank balances. Do you still have the $51 million to pay for fees and Morrison & Co's share of the upside? And then on NZ Bus, the new contract that's coming through, I guess, you're coming through, can you give some color on where you would expect the volatility of potential outcomes to be relative to $40 million EBITDAF last year and when that might have eventuate in time? And then final question on your capital restructuring for normalized level and that where opportunities are at the moment, might come in the future, et cetera. When do we expect you to review a special every 6 months or will be every year, et cetera, if you don't find some return invested?

Kevin Maxwell Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

I can answer the first one. In respect to the fees, so remember, most of the transaction costs are paid, except the sales fee to Morrison & Co and the incentive fee. So combined, they come to, I think, just under $49 million. So there's about $49 million to pay. Those payments will be made once the working capital analysis is fully complete, which we expect to be in the first or second week of December. So if you're looking at your debt balance has grown, then you should take account of those obvious liabilities.

Marko Bogoievski
CEO & Director

Second one was about bus.

Kevin Maxwell Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

The second one, I wasn't sure what the second one was about, bus or not. You're asking about volatility of cash flows of bus? If you look at the EBITDA over the last -- in fact, since we've owned it, I think, it has pretty much been between the high 30s and the medium 40s. So we've now had, I guess, 2 years where we've been at the low end of the 40s, and that has been a consequence of a couple of things, mainly around investing more in maintenance activities. And secondly, we've had this year debt reduction in yield, which has cost us about $2 million for the first half. And if that continues to the second half, and then it'll have a similar outcome. So that's where that's hitting. I think going forward, it's not entirely predictable because we haven't finalized these new contracts with the local authorities. But our expectation is that those contracts will move to gross contracts, which means that the operators receive basically a fixed return over the term of the contracts, which reflects cost of capital and operating costs. So there will actually be less volatility going forward. I think we're kind at the bottom of the earnings in terms of the investments that we are making. So looking forward, I think we'll see some growth in EBITDA of NZ Bus, but it will be dependent on the new contracting model and also the share of tenders that we win and the pricing for those negotiated contracts. So there's a little bit of uncertainty there. But as I said earlier,

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we've had a number of years where we've been in the early 40s up to the mid-40s. So I think that's a number that you can pretty much lock down for the balance of this year and probably next year.

Marko Bogoievski
CEO & Director

I might just pick up the last one because, Grant, I think you're asking about sort of review periods of frequency for this capital management decision. I mean, certainly, you'd expect an update when we report our full year result in May next year, but I wouldn't want to give the impression that you can expect a series of specials. That would be inaccurate. I mean, what we're doing today is based on our current assumptions of -- our knowledge of our standing point, where we think the origination program is and how much flexibility we're fundamentally looking to retain, $120 million feels like the right balance to us. And I already said at the start, we don't feel like we're in an excess capital position, i.e, we feel like we can deploy capital at above-average returns. So I doubt that will be -- I guess, that's more dynamic. We discuss that all the time. We'll update our thinking at period ends. What we all know a bit better is where some of the current activity actually generates an investment recommendations that are closed, and that obviously puts you in a different situation. And again, I would expect some of that to come to fruition during this next second half of this fiscal year. But these things are really hard to predict, right. And we're constantly refreshing our pipeline. So as I said, one of our advantages we can act quickly when situations arise, maybe those sorts of activities that turn up as well in future periods. So I think during this transition period, you'd expect quite a bit of discussion around it, particularly in May, but I wouldn't want to give the impression this is the first of a series of specials. That's not what we're saying today.

Operator

[Operator Instructions] And your next question comes from the line of Lance Reynolds from UBS.

Lance Reynolds
UBS Investment Bank, Research Division

Just a question for me, firstly, on bus. Great to hear that contracts are kind of moving on now. But in relation to that Wellington outcome and viewing bus's potential asset on, I guess, a disposal list and relative to the book value of $300 million, could you give us some more color around kind of how Wellington could impact the marketability of that business? In particular, I guess, what's -- on a worst-case scenario, what's your kind of disposal value or kind of book value of that Wellington fleet? First question. Second question, in relation to Trustpower, in your annual report you alluded to your management fee or your mirror is kind of like 80 bps. Obviously, some focus for some participants in the market around fees on, I guess, listed assets. And in light of -- with Trustpower's trading, which in our view, looks to trade to the discount to the sector, I guess, we're pointing to -- essentially you're charging an active management fee. Could you just kind of give us some color on how active you may or may not want to be over the next kind of 5 years? Is Trustpower an anchor asset? Or is it something that you really want to drive and reraise and crystallize early?

Kevin Maxwell Baker
Chair of NZ Bus and Director of Canberra Data Centres & Infratil Infrastructure Property

Yes. Thanks, Lance. I acknowledge the value of the question, but clearly I don't want to give too much away in terms of values of elements of the business. But broadly speaking, the open market provides 2/3 of the customers in terms of patronage. And really, that's where 2/3 of our cash flows and profitability and, therefore, asset values lie. So if you look at the roughly $300 million of book value, then well into 70% of that value is attributable to the Auckland business and the balance to the Wellington business. So that will give you view that Wellington asset values are sort of in the $70 million to $80 million range in terms of investment. Of those, we invested in the trolley buses, from memory, just under $60 million 6 years ago to upgrade that fleet. That value today is being depreciated down to about $25 million. So the next remaining, what, 3.5, 4 years, will be depreciating that down to close to 0 in terms of the book value. In terms of what the Wellington business is worth, we're still, I think, incredibly well positioned in terms of Wellington. We have well-positioned depots, both in Wellington, in Karori, out in Eastbourne and Lower Hutt, and we've got a new depot, which we're developing just down from the railway station in Thorndon

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as well. So having depot facilities close to your main routes, reducing those dead running kilometers is really, really important. So clearly, we have a lot of IP in the Wellington market. And therefore, whatever new technologies we move to, whether they are hybrid diesel, whether they're another form of electric bus beyond hybrid diesels, I guess, the next 2 or 3 years in discussion with Greater Wellington Regional Council will determine what that is. It will also determine what the investment required in those new buses will be, which we've got, I think, 300 buses in Wellington. At $500,000 a bus, that's $150 million to be invested by somebody in new technology. So I think we are well positioned or NZ Bus is well positioned to make that investment. Clearly, it will be dependent on returns, and that will be a discussion with GWRC about what's affordable. So as I said, I think we're well positioned to remain a key player in the Wellington market.

Marko Bogoievski
CEO & Director

Lance, on the -- the Trustpower question is a bit of an old chestnut, isn't it? Let's face it. I mean, it comes up -- has come up before and I mean, without getting too pedantic, I mean, Morrison & Co gets paid a fee for -- that's based on the market value, obviously, the IFT equity plus the parent company debt, essentially. And that's the entity that's delivered the 17% or 18% compound after-tax returns since 1994. So actually, that's what we're getting paid a fee for. Our assumption at Morrison & Co is the minute we let performance lapse, it's much more difficult to maintain that mandate. It's all about delivering performance on that basis, in my view. It is more challenging to demonstrate active management in a listed environment. Although I actually -- the reason why I called this an old chestnut is because I thought we had demonstrably shown how active management, even in the construct of 50% ownership of Trustpower, has delivered real value. I think the company would say that, and so if you go and ask them. And then you have to go back a bit. You have to understand the history of the group. They have migrated through sort of minority investment, starting business through to control; how it drove -- how Infratil and Morrison & Co, particularly, drove some of the key investment decisions between distribution and generation assets; how it oversaw a project and equity and debt capital market activity, particularly around the big CapEx programs like Snowtown, actually; and now how it's participating, and I think the next challenge, as I said in presentation, is about how much exposure Trustpower should probably have to some of these development opportunities in itself. We know it has been successful in Australia. They've got capability which could be leveraged possibly into other markets. And the only thing I'm concerned about really is that there's sort of a conglomerate discount about combining a retail New Zealand, integrated New Zealand generation business with development activity in other markets, but we'll think about that over time. So Lance, I see our job as being active in all those sorts of areas. And I think a track record -- you only get a track record like that if you are active. Good fortune doesn't -- it might last a short period, but not for 20 years, right? And actually, I would say the same thing around other listed positions, by the way. Even -- I don't know if you'd have a chance to talk to Kevin Baker and Will Smales, who are the directors on Metlifecare, myself and Bruce Harker on the Z Energy board, I'd like to think we'd still be described as active investors. And I think, again, those companies would -- you're probably better off asking them actually. That's my short answer, Lance.

Lance Reynolds
UBS Investment Bank, Research Division

Yes, sorry, I had to ask it. I mean, I guess, in the context of where the portfolio is structured and I guess what we've seen in the last 24 months, it does that highlight risk in having such a large position across the portfolio. And I guess, when I'm talking about medium term, you aren't in the weeds in that asset in any way, right? You review your positions, I guess, frequently, and I guess, your level of exposure, I guess, indicates your commitment to the asset and what you think the returns are, I'm assuming.

Marko Bogoievski
CEO & Director

No, I think that is a fair point and fair challenge. But don't forget, I mean, we do think about constructing a portfolio, right? So you need Trustpower-type assets to fund the retail bond and senior debt that we have in activity to take on riskier development exposures. In aggregate, you have to get the balance right so you deliver above average returns, 17%, 18% returns. So if it's not Trustpower, you need some anchor

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in your portfolio to pay for your cap structure so you can participate in these higher-returning activities. And this is actually what we've done pretty well. I think getting that balance right is what we've done really well. But the advantage of Trustpower, obviously, it's a sector we have deep operating capability. They've got their own extensive debt capital markets program. I think this market will change, and I think we said this last year, as a result of the partial privatization process, right? What will be really interesting in the next 12 months is to see what each of the partially-owned stake enterprises do with their excess capital. I think you're getting a bit of a flavor for that at the moment, aren't you, with MRP and their sort of special dividend-type approach. It will be interesting to see what the other guys do with their cap structure moving forward, and I think it will give you a bit of a hint about how they're thinking about the domestic New Zealand electricity market.

Operator

We have no further questions on the phone at this time.

Marko Bogoievski
CEO & Director
All right. Let's reorganize because we're 11:00 on the dot. Appreciate everyone's attention. Hopefully, you agree with what I said at the start, that this was quite an active period. And please, feel free to approach us with additional questions following the presentation. Thanks, again.

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