Why not use 'comps' to value infrastructure assets?

Answer

'Comps', also called peer-group valuation, is a relative valuation approach with the basic premise that similar companies should have similar equity value. This approach can not be used for unlisted infrastructure investments mainly because:

1. Infrastructure companies are far more heterogenous in nature than, say, real estate companies, and thus finding similar companies is rarely ever possible. For example: two airports could be completely different depending on their business models or their geo-economic exposure.
2. Unlisted infrastructure companies trade very infrequently. So even if there are 'genuine comps' of a particular asset, the last traded valuation could be significantly outdated.

Things to consider

1. 'Comps' approach works much better in Private real estate or Private equity transactions because of the sheer number of assets available and traded in the secondary market.
2. In EDHEC*infra* methodology, other infrastructure asset prices are used to calibrate the models to the market based on an asset's financials and characteristics, but not to directly calculate a price.

Related topics

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