



Brookfield Infrastructure Partners L.P. (BIP)

Updated November 6th, 2021 by Kay Ng

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	8.9%	Market Cap:	\$17.7B
Fair Value Price:	\$56	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/29/21
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	12/21/21
Dividend Yield:	3.4%	5 Year Price Target	\$79	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	5.2%

Overview & Current Events

Brookfield Infrastructure Partners L.P. is one of the largest global owners and operators of infrastructure networks, which includes operations in sectors such as energy, water, freight, passengers, and data. Brookfield Infrastructure Partners is one of three publicly-traded listed partnerships that is operated by Brookfield Asset Management (BAM). Brookfield Infrastructure Partners is a Bermuda-based limited partnership that is treated as a partnership for U.S. and Canadian tax purposes, and it reports financial results in U.S. dollars. It also spun off Brookfield Infrastructure Corp. (BIPC, TSX:BIPC) in early 2020 for investors who prefer to invest in a corporation.

BIP reported decent Q3 results on 11/03/21. Its funds-from-operations (FFO) per unit climbed 13% to \$0.89 on a split-adjusted basis, thanks to solid organic growth and the commissioning of \$800 million of capital projects in the last 12 months. Organic growth was 9%, excluding the recovery of shutdown-related declines.

Year-to-date results show a bigger picture that's even more impressive. FFO per unit rose 17% to \$2.66 on a split-adjusted basis. The utility witnessed growth across all its segments with particularly strong growth in three of the four: Transport (FFO growth of 23% YOY), Midstream (FFO growth of 52% -- thanks to initial contributions from Inter Pipeline, as BIP began acquiring Inter Pipeline shares on the open market in March 2020), Data (FFO growth of 32%). The Utilities segment also contributed stable FFO growth of 10%. Notably, BIP got almost \$2 billion in net proceeds from asset sales this year so far. In late October, BIP announced it completed the acquisition of the remaining shares of Inter Pipeline. It's already striking while the iron is hot by ensuring Inter Pipeline's multi-year Heartland petrochemical complex project will go into service on-time in 2022. Along its institutional partners, BIP is also acquiring an Australian regulated utility for A\$8.3 billion in equity value. This acquisition is expected to close in Q2 2022. Additionally, BIP is selling the rest (34% stake) of its Chilean toll road operation; it sold parts of it in 2019 and 2020 at a consistent enterprise value as this time. The transaction will generate net proceeds of \$160 million this month. The overall rate of return for this investment is roughly 16%. We maintain our 2021 FFOPS estimate of \$3.50.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFOPS	\$1.61	\$1.61	\$2.20	\$2.30	\$2.39	\$2.72	\$3.11	\$3.11	\$3.40	\$3.13	\$3.50	\$4.91
DPS	\$0.88	\$1.00	\$1.15	\$1.28	\$1.41	\$1.55	\$1.74	\$1.88	\$2.01	\$1.94	\$2.04	\$3.00
Shares¹	199	215	225	225	243	173	277	278	294	295	302	342

Investors should note that split-adjusted values/estimates are shown starting from 2020 in the table above. The 2020 cash distribution is reduced due to the BIPC spinoff (not because of a dividend cut). BIP's earnings are reduced by preferred unit and incentive distributions. So, the FFOPS is a better metric than the EPS to track its business health. The FFOPS adjusts for non-cash items such as depreciation, amortization, and certain non-recurring items to more realistically represent the firm's underlying earnings power. BIP uses FFO, which are relatively in line with its cash flows, to decide on its dividend growth. From 2011-2020, the FFOPS and DPS had a CAGR of 8.9% and 10.4%, respectively, on a split-adjusted basis. BIP has a strong track record of selling mature assets and redeploying capital for attractive long-term returns. As well, its infrastructure portfolio also experiences strong organic growth of 6-9% per year. During 2020,

¹ Shares in millions.

Disclosure: Kay Ng has BIP, BIPC, and BAM shares.



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BIP invested \$2.5 billion in new investments and organic projects and also generated +\$700 million via capital recycling. BIP targets an FFOPS growth rate of 5-9%. We use the midpoint of 7% for our estimated FFOPS growth rate through 2026. Due to BIP's low payout ratio, we estimate a dividend growth rate of 8% through 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	10.1	13.5	11.4	11.5	11.8	10.9	13.0	11.3	13.2	13.3	17.0	16.0
Avg. Yld.	5.4%	4.6%	4.6%	4.8%	5.0%	5.3%	4.3%	5.3%	4.5%	4.7%	3.4%	3.8%

BIP is best valued on the company's FFO. From 2016-2020, BIP's average P/FFO was 12.3. However, as the utility is led by top-notch management, continues to grow at an above-average pace in the utility space, and expands its diversified portfolio of quality infrastructure assets, we believe BIP stock is worthy of a premium multiple. We think a target multiple of close to 16 and a yield of about 3.8% are fair targets for this quality utility.

Safety, Quality, Competitive Advantage, & Recession Resiliency

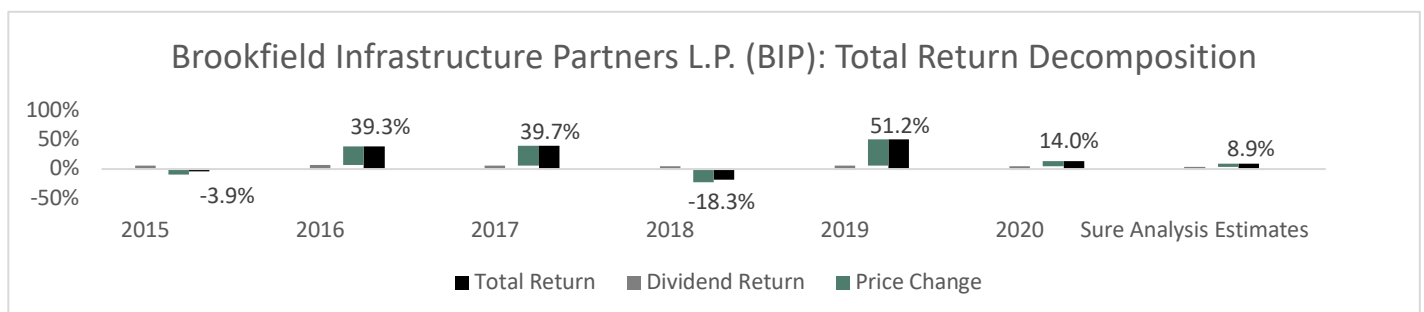
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	55%	62%	52%	56%	59%	57%	56%	60%	59%	62%	58%	61%

The COVID-19 pandemic demonstrated the resiliency of BIP's business. The company defines the payout ratio as distributions paid (inclusive of GP incentive and preferred unit distributions) divided by FFO, which averaged 58% from 2011-2020. Going forward, management aims for an FFO payout ratio of 60% to 70%. BIP should continue increasing the dividend roughly in line with its FFOPS growth. BIP's FFOPS remains stable even through recessions because of the essential services provided by its diversified infrastructure portfolio. Stable FFO and a sustainable payout ratio leads to a secure dividend. BIP benefits from the qualitative competitive advantages of the Brookfield family of companies, which includes access to large-scale capital, vast experience owning and operating real assets, and a truly global operating presence. These factors allow BIP to invest in the most compelling global infrastructure opportunities. BIP has strong liquidity of ~\$3.0 billion at the corporate level. Additionally, BIP maintains a solid credit rating of BBB+. It primarily finances at the asset level. So, in the worst-case scenario, it'd end up handing over a bad asset to a creditor; the rest of the business won't be impacted. In any case, BIP is set up to grow. It plans to deploy +\$2 billion in 2021, and it sees its capital recycling program providing a record of +\$2 billion of proceeds soon, in a given year.

Final Thoughts & Recommendation

BIP allows investors to invest in real global infrastructure assets. It will continue to grow at a good pace going forward. We believe fairly-valued BIP can deliver total returns of about 8.9% over the next five years from a yield of 3.4%, 7.0% FFO growth, and valuation compression of -1.3%. Therefore, we rate BIP as a "buy" right now, especially on dips.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1115	1524	1826	1924	1855	2115	3535	4652	6597	8885
Gross Profit	554	758	1003	1078	1057	1052	2026	2444	3202	4042
Gross Margin	49.7%	49.7%	54.9%	56.0%	57.0%	49.7%	57.3%	52.5%	48.5%	45.5%
SG&A Exp.	61	95	110	115	134	166	239	223	279	312
D&A Exp.	127	232	329	380	375	447	671	801	1214	1705
Operating Profit	367	433	564	583	548	439	1116	1420	1709	2025
Operating Margin	32.9%	28.4%	30.9%	30.3%	29.5%	20.8%	31.6%	30.5%	25.9%	22.8%
Net Profit	136	80	-32	145	235	369	124	329	211	324
Net Margin	12.2%	5.2%	-1.8%	7.5%	12.7%	17.4%	3.5%	7.1%	3.2%	3.6%
Free Cash Flow	-168	-19	269	237	112	63	767	523	961	1104
Income Tax	14	-30	2	79	-4	15	173	364	278	291

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	13269	19718	15682	16495	17735	21275	29477	36580	56308	61331
Cash & Equivalents	153	263	538	189	199	702	341	444	699	867
Accounts Receivable	179	343	313	268	300	395	738	1044	1741	
Inventories	87	108	22	21	13	101	108	141	242	
Goodwill & Int. Ass.	3515	5133	4054	3659	3375	4967	11195	15494	20939	18401
Total Liabilities	7380	11910	9077	10173	10559	11631	16003	21912	34131	39658
Accounts Payable	166	260	222	264	196	266	864	463	854	
Long-Term Debt	4885	7939	6167	6809	7232	8326	10164	15106	21019	23178
Shareholder's Equity	3073	3659	3778	3557	4050	5013	5587	5471	6007	5382

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.0%	0.5%	-0.2%	0.9%	1.4%	1.9%	0.5%	1.0%	0.5%	0.6%
Return on Equity	4.9%	2.4%	-0.9%	4.0%	6.2%	8.1%	2.3%	6.0%	3.7%	5.7%
ROIC	1.8%	0.8%	-0.3%	1.6%	2.4%	3.2%	0.8%	1.6%	0.7%	0.8%
Shares Out.	199	215	225	225	243	173	277	278	294	295
Revenue/Share	6.38	7.42	8.24	8.54	7.76	8.64	13.36	16.80	23.10	30.15
FCF/Share	-0.96	-0.09	1.21	1.05	0.47	0.26	2.90	1.89	3.36	3.75

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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