



Brookfield Infrastructure Partners L.P. (BIP)

Updated November 2nd, 2022 by Kay Ng

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	12.4%	Market Cap:	\$16.5B
Fair Value Price:	\$40	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/29/22
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	12/30/22
Dividend Yield:	4.0%	5 Year Price Target	\$56	Years Of Dividend Growth:	13
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 four 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 spun off Brookfield Infrastructure Corp. (BIPC, TSX:BIPC) in early 2020 for investors who prefer to invest in a corporation.

BIP reported positive Q3 2022 results on 11/2/22. For the quarter, its funds-from-operations (FFO) 24% to \$525 million. On a per-unit basis, its FFO climbed 15% to \$0.68. FFO growth was driven by the midstream and transport segments. FFO for the utilities and data segments also increased but at a smaller scale. The year-to-date results provide a bigger picture. FFO growth was 23% to \$1,531 million, and FFOPU increased by 12% to \$1.99, illustrating the essential nature of its business that generates quality cash flows that are highly regulated or have contracted revenues. In the Q3 press release, BIP CEO, Sam Pollock stated, “[We] had record quarterly results as a function of our high quality asset base, proven risk management approach and execution of our asset rotation strategy, [which] provide a basis to capitalize on deep value investments when these opportunities arise.” In August, BIP announced a partnership with Intel (INTC) to build a \$30-billion semiconductor foundry in Arizona. It’s also working on closing the transactions of HomeServe and DFMG in Q4 2022 and Q1 2023, respectively. We improved our 2022 FFOPS estimate to \$2.67 due to solid growth from recent acquisitions, organic growth across its base business was 10% for Q3 as BIP benefited from high inflation, and mark-to-market gains on its foreign currency hedging program.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFOPS	\$1.61	\$2.20	\$2.30	\$2.39	\$2.72	\$3.11	\$3.11	\$3.40	\$3.13	\$3.64	\$2.67	\$3.74
DPS	\$1.00	\$1.15	\$1.28	\$1.41	\$1.55	\$1.74	\$1.88	\$2.01	\$1.94	\$2.04	\$1.44	\$1.93
Shares¹	215	225	225	243	173	277	278	294	295	305	458	518

Split-adjusted values/estimates are shown for 2020-2021 in the table above due to the BIPC spinoff in 2020. Similarly, split-adjustments are reflected for 2022 estimates, reflecting the June 2022, BIP/BIPC 3-for-2 share split. No cash distribution cuts occurred in 2020 or 2022. 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 2012-2021, the FFOPS and DPS had a CAGR of 10.8% and 9.5%, 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 expects to experience strong organic growth of 6-9% per year. During 2021, BIP invested \$3.0 billion in new investments and organic projects and also generated \$2 billion of proceeds via capital recycling. The utility expects to generate up to \$2 billion from its capital recycling program over the next 12 months. BIP targets an FFOPS growth rate of 5-9%. We use

¹Shares in millions.

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



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the midpoint of 7% for our estimated FFOPS growth rate through 2027. We estimate a dividend growth rate of 6% through 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	13.5	11.4	11.5	11.8	10.9	13.0	11.3	13.2	13.3	16.3	13.5	15.0
Avg. Yld.	4.6%	4.6%	4.8%	5.0%	5.3%	4.3%	5.3%	4.5%	4.7%	3.6%	4.0%	3.4%

BIP is best valued on the company's FFO. From 2017-2021, BIP's average P/FFO was 13.4. 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 15 and a yield of about 3.4% are fair for this quality utility.

Safety, Quality, Competitive Advantage, & Recession Resiliency

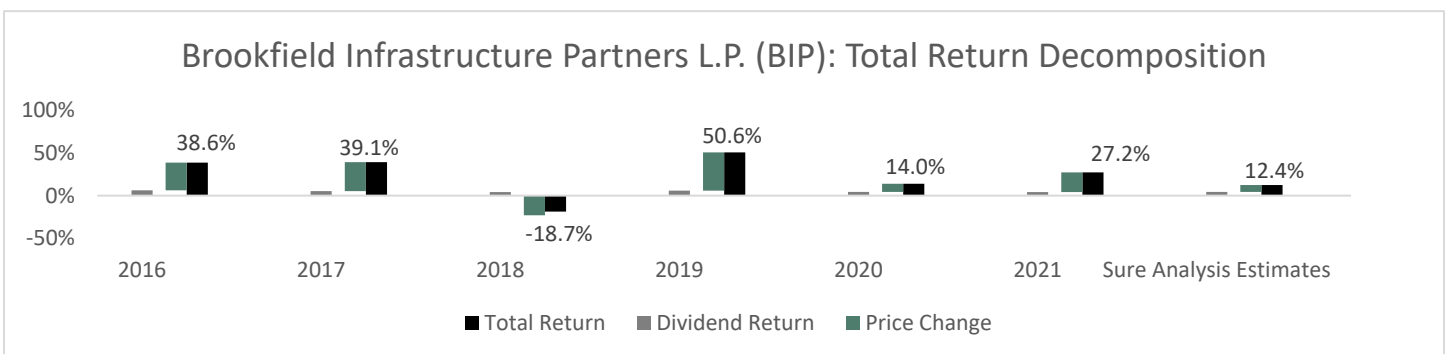
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	62%	52%	56%	59%	57%	56%	60%	59%	62%	56%	54%	51%

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 70% from 2012-2021. According to this formula, its 2021 payout ratio was 73%. Going forward, management aims for an FFO payout ratio of 60% to 70%. 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 \$2.3 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 just under \$3 billion in 2022, and it sees its capital recycling program providing a record of +\$2 billion of proceeds soon, in any 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 12.4% over the next five years from a yield of 4.0%, 7.0% FFO growth, and valuation expansion of 2.1%. Therefore, we rate BIP as a "buy."

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,524	1,826	1,924	1,855	2,115	3,535	4,652	6,597	8,885	11,537
Gross Profit	758	1,003	1,078	1,057	1,052	2,026	2,444	3,202	4,042	3,290
Gross Margin	49.7%	54.9%	56.0%	57.0%	49.7%	57.3%	52.5%	48.5%	45.5%	28.5%
SG&A Exp.	95	110	115	134	166	239	223	279	312	406
D&A Exp.	232	329	380	375	447	671	801	1,214	1,705	2,036
Operating Profit	433	564	583	548	439	1,116	1,420	1,709	2,025	2,884
Operating Margin	28.4%	30.9%	30.3%	29.5%	20.8%	31.6%	30.5%	25.9%	22.8%	25.0%
Net Profit	80	-32	145	235	369	124	329	211	324	766
Net Margin	5.2%	-1.8%	7.5%	12.7%	17.4%	3.5%	7.1%	3.2%	3.6%	6.6%
Free Cash Flow	-19	269	237	112	63	767	523	961	1,058	790
Income Tax	-30	2	79	-4	15	173	364	278	291	614

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	19,718	15,682	16,495	17,735	21,275	29,477	36,580	56,308	61,331	73,961
Cash & Equivalents	263	538	189	199	702	341	444	699	742	1,406
Accounts Receivable	343	313	268	300	395	738	1,044	1,741	1,463	---
Inventories	108	22	21	13	101	108	141	242	221	---
Goodwill & Int. Ass.	5,133	4,054	3,659	3,375	4,967	11,195	15,494	20,939	18,401	23,193
Total Liabilities	11,910	9,077	10,173	10,559	11,631	16,003	21,912	34,131	39,658	47,570
Accounts Payable	260	222	264	196	266	864	463	973	1,461	---
Long-Term Debt	7,939	6,167	6,809	7,232	8,326	10,164	15,106	21,118	23,396	29,253
Shareholder's Equity	3,659	3,778	3,557	4,050	5,013	5,587	5,471	6,007	5,382	6,871

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.5%	-0.2%	0.9%	1.4%	1.9%	0.5%	1.0%	0.5%	0.5%	1.1%
Return on Equity	2.4%	-0.9%	4.0%	6.2%	8.1%	2.3%	6.0%	3.7%	3.7%	12.5%
ROIC	0.8%	-0.3%	1.6%	2.4%	3.2%	0.8%	1.6%	0.7%	0.7%	1.7%
Shares Out.	215	225	225	243	173	277	278	294	295	305
Revenue/Share	7.42	8.24	8.54	7.76	8.64	13.36	16.80	23.10	23.10	38.88
FCF/Share	-0.09	1.21	1.05	0.47	0.26	2.90	1.89	3.36	3.36	2.66

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

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