



# Brookfield Infrastructure Partners L.P. (BIP)

Updated May 5<sup>th</sup>, 2023 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$36	<b>5 Year CAGR Estimate:</b>	13.1%	<b>Market Cap:</b>	\$16B
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	05/30/23
<b>% Fair Value:</b>	88%	<b>5 Year Valuation Multiple Estimate:</b>	2.6%	<b>Dividend Payment Date:</b>	06/30/23
<b>Dividend Yield:</b>	4.3%	<b>5 Year Price Target</b>	\$57	<b>Years Of Dividend Growth:</b>	14
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 multiple publicly-traded listed companies under Brookfield Corporation (BN). 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 Q1 2023 results on 05/03/23. Helped by relatively high inflation, strong volumes across its transport networks, and the commissioning of ~\$1 billion in new capital projects over the last twelve months, organic growth for the quarter was robust at 9%. BIP also deployed \$2.4 billion of capital in new acquisitions over the past year. Consequently, for the quarter, its funds-from-operations (FFO) 12% to \$554 million. On a per-unit basis, its FFO climbed 12.5% to \$0.72. FFO growth was driven by the utilities and data segments, which saw growth of 25% and 21%, respectively. The transport operations saw FFO growth of 4%, while the midstream segment's FFO rose 1%.

In April, along with its institutional partners, BIP announced to acquire Triton, the world's largest owner and lessor of intermodal shipping containers and is a critical provider of global transport logistics infrastructure, valued at an enterprise value of ~\$13.3 billion. The company also sold its interests in 2 U.S. gas storage assets for gross proceeds of \$235 million (BIP's share was ~\$100 million) at attractive multiples of 21x and 15x EBITDA, respectively. We maintain our 2023 FFOPS estimate at \$2.90.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFOPS</b>	\$2.20	\$2.30	\$2.39	\$2.72	\$3.11	\$3.11	\$3.40	\$3.13	\$3.64	\$2.71	<b>\$2.90</b>	<b>\$4.07</b>
<b>DPS</b>	\$1.15	\$1.28	\$1.41	\$1.55	\$1.74	\$1.88	\$2.01	\$1.94	\$2.04	\$1.44	<b>\$1.53</b>	<b>\$2.05</b>
<b>Shares<sup>1</sup></b>	225	225	243	173	277	278	294	295	305	458	<b>469</b>	<b>531</b>

Split-adjusted values/estimates are shown for 2020-2023 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 2013-2022, the FFOPS and DPS had a CAGR of 8.3% and 8.5%, 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. From 2021-2022, BIP invested \$5.0 billion in new investments. For example, in August 2022, BIP announced a partnership with Intel (INTC) to build a \$30-billion semiconductor foundry in Arizona. The utility expects to generate proceeds of about \$2 billion per year from its capital

<sup>1</sup>Shares in millions.

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



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recycling program. BIP targets an FFOPS growth rate of 5-9%. We use the midpoint of 7% for our estimated FFOPS growth rate through 2028. We estimate a dividend growth rate of 6% through 2028.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	11.4	11.5	11.8	10.9	13.0	11.3	13.2	13.3	16.3	12.9	12.3	14.0
Avg. Yld.	4.6%	4.8%	5.0%	5.3%	4.3%	5.3%	4.5%	4.7%	3.6%	3.9%	4.3%	3.6%

BIP is best valued on the company's FFO. From 2018-2022, BIP's average P/FFO was 13.4. As top management leads the utility, it 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 14 and a yield of about 3.6% are fair for this quality utility in today's higher interest rate environment.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

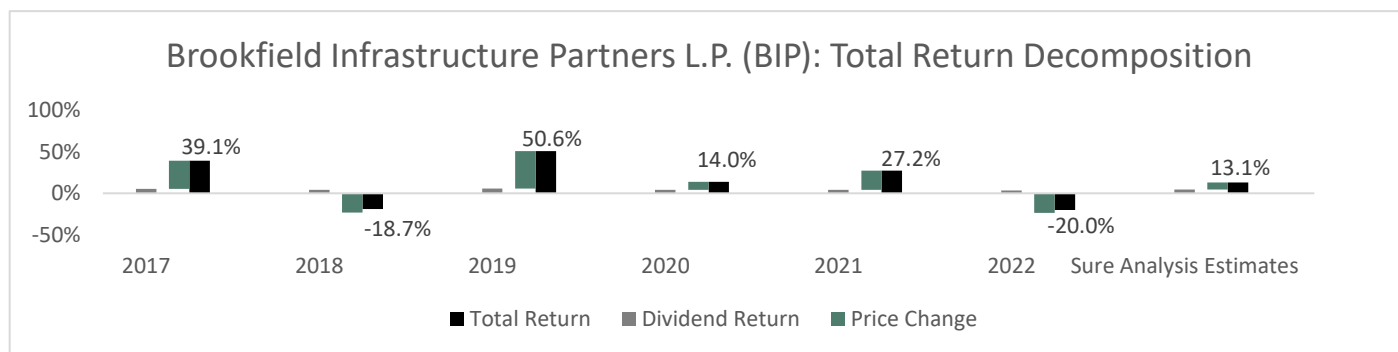
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	52%	56%	59%	57%	56%	60%	59%	62%	56%	53%	53%	50%

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 2013-2022. According to this formula, its 2022 payout ratio was 68%, within management's FFO payout ratio target 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 ~\$2.4 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 sees its capital recycling program providing a record of ~\$2 billion of proceeds soon, in any given year, which could be reinvested for higher risk-adjusted returns.

## 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 13.1% over the next five years from a yield of 4.3%, 7.0% FFO growth, and valuation expansion of 2.6%. Therefore, we rate BIP as a "buy."

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1,826	1,924	1,855	2,115	3,535	4,652	6,597	8,885	11,537	14,427
<b>Gross Profit</b>	1,003	1,078	1,057	1,052	2,026	2,444	3,202	4,042	3,290	3,917
<b>Gross Margin</b>	54.9%	56.0%	57.0%	49.7%	57.3%	52.5%	48.5%	45.5%	28.5%	27.2%
<b>SG&amp;A Exp.</b>	110	115	134	166	239	223	279	312	406	433
<b>D&amp;A Exp.</b>	329	380	375	447	671	801	1,214	1,705	2,036	2,158
<b>Operating Profit</b>	564	583	548	439	1,116	1,420	1,709	2,025	2,884	3,484
<b>Operating Margin</b>	30.9%	30.3%	29.5%	20.8%	31.6%	30.5%	25.9%	22.8%	25.0%	24.1%
<b>Net Profit</b>	-32	145	235	369	124	329	211	324	766	341
<b>Net Margin</b>	-1.8%	7.5%	12.7%	17.4%	3.5%	7.1%	3.2%	3.6%	6.6%	2.4%
<b>Free Cash Flow</b>	269	237	112	63	767	523	961	1,058	790	397
<b>Income Tax</b>	2	79	-4	15	173	364	278	291	614	560

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	15682	16495	17,735	21,275	29,477	36,580	56,308	61,331	73,961	72,969
<b>Cash &amp; Equivalents</b>	538	189	199	702	341	444	699	742	1,406	1,279
<b>Accounts Receivable</b>	313	268	300	395	738	1,044	1,741	1,463	---	---
<b>Inventories</b>	22	21	13	101	108	141	242	221	---	---
<b>Goodwill &amp; Int. Ass.</b>	4054	3,659	3,375	4,967	11,195	15,494	20,939	18,401	23,193	20,611
<b>Total Liabilities</b>	9077	10173	10,559	11,631	16,003	21,912	34,131	39,658	47,570	47,415
<b>Accounts Payable</b>	222	264	196	266	864	463	973	1,461	---	---
<b>Long-Term Debt</b>	6167	6,809	7,232	8,326	10,164	15,106	21,118	23,396	29,253	30,233
<b>Shareholder's Equity</b>	3778	3,557	4,050	5,013	5,587	5,471	6,007	5,382	6,871	6,317

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	-0.2%	0.9%	1.4%	1.9%	0.5%	1.0%	0.5%	0.5%	1.1%	0.5%
<b>Return on Equity</b>	-0.9%	4.0%	6.2%	8.1%	2.3%	6.0%	3.7%	3.7%	12.5%	5.2%
<b>ROIC</b>	-0.3%	1.6%	2.4%	3.2%	0.8%	1.6%	0.7%	0.7%	1.7%	0.7%
<b>Shares Out.</b>	225	225	243	173	277	278	294	295	305	458
<b>Revenue/Share</b>	8.24	8.54	7.76	8.64	13.36	16.80	23.10	23.10	38.88	31.49
<b>FCF/Share</b>	1.21	1.05	0.47	0.26	2.90	1.89	3.36	3.36	2.66	0.87

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

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