



Brookfield Infrastructure Partners L.P. (BIP)

Updated November 1st, 2023 by Kay Ng

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	19.2%	Market Cap:	\$11.5B
Fair Value Price:	\$37	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/29/23
% Fair Value:	69%	5 Year Valuation Multiple Estimate:	7.8%	Dividend Payment Date:	12/29/23
Dividend Yield:	6.1%	5 Year Price Target	\$51	Years Of Dividend Growth:	14
Dividend Risk Score:	B	Retirement Suitability Score:	A	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 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 solid Q3 2023 results on 11/1/23. Funds from operations (FFO) rose 6.7% year over year (YOY) to \$560 million, supported by strong base business performance and the contribution of ~\$1 billion of capital deployed in new acquisitions over the past year, partially offset by the impact of nearly \$2 billion in asset sales. Organic growth was near the high-end of its 6-9% target range, benefiting from elevated levels of inflation across its transport and utilities segments. FFO per unit climbed 7.4% to \$0.73. During Q3, BIP closed the Triton transaction, which brought it a global intermodal logistics business that has a leading market position and generates strong cash flow, which allows for investment in fleet replacements and growth during favorable markets or the harvest of cash in less attractive markets. BIP is also acquiring a portfolio of data centers out of the Cyxtera bankruptcy. This deal further expands its scale in North America, allowing it to provide critical infrastructure for +2,500 customers, riding on the tailwind in AI and cloud deployments. The year-to-date results show a bigger picture. FFO per unit rose 8.5% YOY to \$2.16. We maintain our 2023 funds from operations per share (FFOPS) estimate at \$2.90.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFOPS	\$2.20	\$2.30	\$2.39	\$2.72	\$3.11	\$3.11	\$3.40	\$3.13	\$3.64	\$2.71	\$2.90	\$4.07
DPS	\$1.15	\$1.28	\$1.41	\$1.55	\$1.74	\$1.88	\$2.01	\$1.94	\$2.04	\$1.44	\$1.53	\$2.05
Shares¹	225	225	243	173	277	278	294	295	305	458	459	519

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 determine 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. The utility expects to generate proceeds of about \$2 billion per year from its capital 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.

¹Shares in millions.

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



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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	8.7	12.6
Avg. Yld.	4.6%	4.8%	5.0%	5.3%	4.3%	5.3%	4.5%	4.7%	3.6%	3.9%	6.1%	4.0%

We value BIP based on its FFO. From 2013-2022, BIP's average P/FFO was 12.6. Top management leads the utility, it continues to grow at an above-average pace in the utility space and is expanding its diversified portfolio of quality infrastructure assets. However, in a higher interest rate environment, we think a target multiple of 12.6 and a yield of about 4% are fair for this quality utility. The stock appears to be undervalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

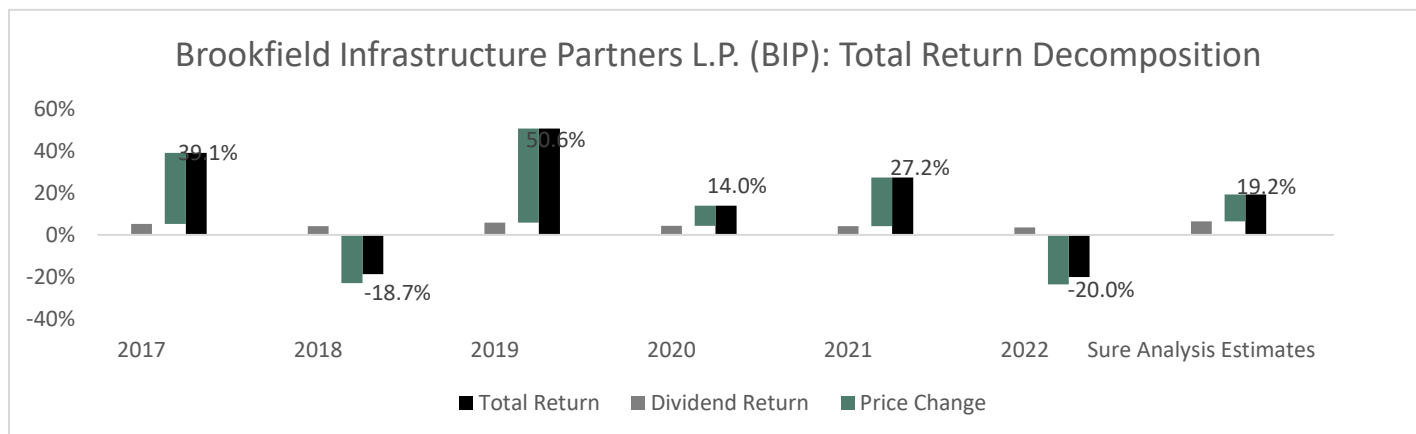
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	52%	56%	59%	57%	56%	60%	59%	62%	56%	53%	53%	50%

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 year-to-date payout ratio is 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 a worst-case scenario, it'd end up handing over a struggling asset to a creditor; the rest of the business wouldn'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, in any given year, which could be reinvested for its target returns of 12-15% on its investments.

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 undervalued BIP can deliver total returns of about 19.2% over the next five years from a yield of 6.1%, 7.0% FFO growth, and valuation expansion of 7.8%. 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
Revenue	1,826	1,924	1,855	2,115	3,535	4,652	6,597	8,885	11,537	14,427
Gross Profit	1,003	1,078	1,057	1,052	2,026	2,444	3,202	4,042	3,290	3,917
Gross Margin	54.9%	56.0%	57.0%	49.7%	57.3%	52.5%	48.5%	45.5%	28.5%	27.2%
SG&A Exp.	110	115	134	166	239	223	279	312	406	433
D&A Exp.	329	380	375	447	671	801	1,214	1,705	2,036	2,158
Operating Profit	564	583	548	439	1,116	1,420	1,709	2,025	2,884	3,484
Operating Margin	30.9%	30.3%	29.5%	20.8%	31.6%	30.5%	25.9%	22.8%	25.0%	24.1%
Net Profit	-32	145	235	369	124	329	211	324	766	341
Net Margin	-1.8%	7.5%	12.7%	17.4%	3.5%	7.1%	3.2%	3.6%	6.6%	2.4%
Free Cash Flow	269	237	112	63	767	523	961	1,058	790	397
Income Tax	2	79	-4	15	173	364	278	291	614	560

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	15682	16495	17,735	21,275	29,477	36,580	56,308	61,331	73,961	72,969
Cash & Equivalents	538	189	199	702	341	444	699	742	1,406	1,279
Accounts Receivable	313	268	300	395	738	1,044	1,741	1,463	---	---
Inventories	22	21	13	101	108	141	242	221	---	---
Goodwill & Int. Ass.	4054	3,659	3,375	4,967	11,195	15,494	20,939	18,401	23,193	20,611
Total Liabilities	9077	10173	10,559	11,631	16,003	21,912	34,131	39,658	47,570	47,415
Accounts Payable	222	264	196	266	864	463	973	1,461	---	---
Long-Term Debt	6167	6,809	7,232	8,326	10,164	15,106	21,118	23,396	29,253	30,233
Shareholder's Equity	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
Return on Assets	-0.2%	0.9%	1.4%	1.9%	0.5%	1.0%	0.5%	0.5%	1.1%	0.5%
Return on Equity	-0.9%	4.0%	6.2%	8.1%	2.3%	6.0%	3.7%	3.7%	12.5%	5.2%
ROIC	-0.3%	1.6%	2.4%	3.2%	0.8%	1.6%	0.7%	0.7%	1.7%	0.7%
Shares Out.	225	225	243	173	277	278	294	295	305	458
Revenue/Share	8.24	8.54	7.76	8.64	13.36	16.80	23.10	23.10	38.88	31.49
FCF/Share	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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