



Brookfield Infrastructure Partners L.P. (BIP)

Updated February 1st, 2024 by Kay Ng

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$32 | 5 Year CAGR Estimate: | 15.5% | Market Cap: | \$14.7B |
| Fair Value Price: | \$40 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date: | 02/28/24 |
| % Fair Value: | 80% | 5 Year Valuation Multiple Estimate: | 4.6% | Dividend Payment Date: | 03/29/24 |
| Dividend Yield: | 5.1% | 5 Year Price Target | \$56 | Years Of Dividend Growth: | 15 |
| 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 Q4 and full-year 2023 results on 02/01/24. For the year, funds from operations (FFO) rose 9.6% to \$2.3 billion, while FFO per unit rose 8.9% to \$2.95. It was business as usual for BIP. Organic growth was 8%, reflecting strong inflation in the countries it operates in, volume growth across the majority of its essential infrastructure networks, and the commissioning of ~\$1 billion of new capital projects that are now contributing to earnings. Furthermore, it deployed over \$2 billion into new investments in Q3 & Q4 2023 that favorably impacted results, offset by the impact of \$1.9 billion of asset sales that primarily closed in Q2 2023.

The utility stock also increased its quarterly cash distribution by 5.9% to \$0.405, equating to an annual payout of \$1.62 per unit. We initiate our 2024 funds from operations per share (FFOPS) estimate at \$3.16.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| FFOPS | \$2.30 | \$2.39 | \$2.72 | \$3.11 | \$3.11 | \$3.40 | \$3.13 | \$3.64 | \$2.71 | \$2.95 | \$3.16 | \$4.43 |
| DPS | \$1.28 | \$1.41 | \$1.55 | \$1.74 | \$1.88 | \$2.01 | \$1.94 | \$2.04 | \$1.44 | \$1.53 | \$1.62 | \$2.17 |
| Shares¹ | 225 | 243 | 173 | 277 | 278 | 294 | 295 | 305 | 458 | 462 | 464 | 524 |

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 2014-2023, the FFOPS and DPS had a CAGR of 7.5% and 6.7%, 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 2021-2023, BIP invested \$7.0 billion in new investments. The utility expects to generate proceeds of ~\$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 2029. And we estimate a dividend growth rate of 6% through 2029.

¹ Shares in millions.

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



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Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| P/FFO | 11.5 | 11.8 | 10.9 | 13.0 | 11.3 | 13.2 | 13.3 | 16.3 | 12.9 | 11.5 | 10.1 | 12.6 |
| Avg. Yld. | 4.8% | 5.0% | 5.3% | 4.3% | 5.3% | 4.5% | 4.7% | 3.6% | 3.9% | 4.7% | 5.1% | 3.9% |

We value BIP based on its FFO. From 2014-2023, BIP's average P/FFO was 12.6. The utility has a top management team, and it continues to grow at an above-average pace in the utility space while 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

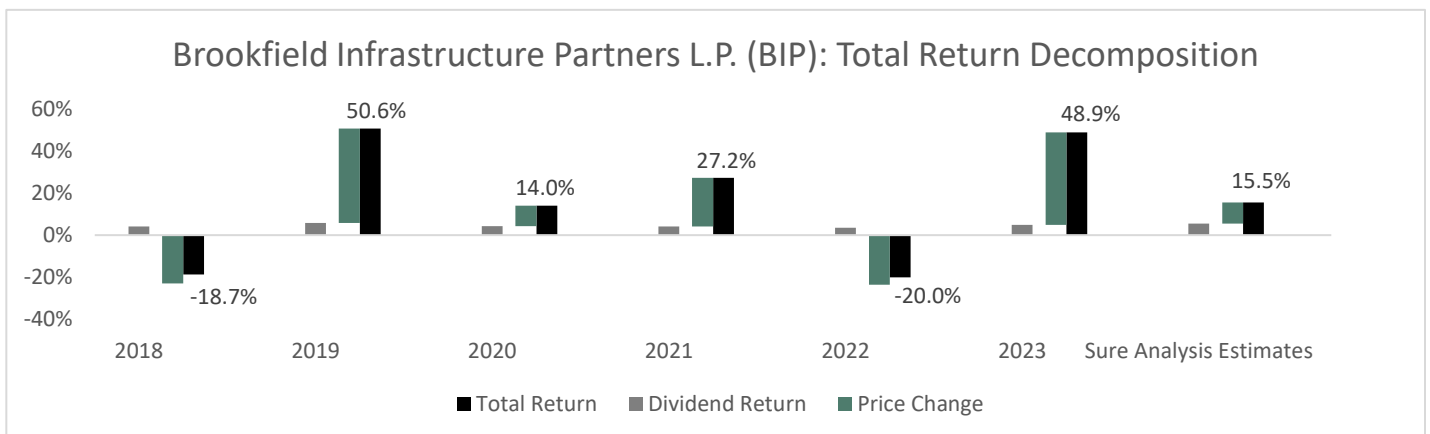
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 56% | 59% | 57% | 56% | 60% | 59% | 62% | 56% | 53% | 52% | 51% | 49% |

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 2014-2023. According to this formula, its 2023 payout ratio is 66%, 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 ~\$2.8 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 should continue to grow at a good pace going forward. We believe BIP is undervalued and can deliver total returns of about 15.5% over the next five years from a yield of 5.1%, 7.0% FFO growth, and valuation expansion of 4.6%. Therefore, we rate BIP as a "buy."

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| Revenue | 1,924 | 1,855 | 2,115 | 3,535 | 4,652 | 6,597 | 8,885 | 11,537 | 14,427 | 17,930 |
| Gross Profit | 1,078 | 1,057 | 1,052 | 2,026 | 2,444 | 3,202 | 4,042 | 3,290 | 3,917 | 4,461 |
| Gross Margin | 56.0% | 57.0% | 49.7% | 57.3% | 52.5% | 48.5% | 45.5% | 28.5% | 27.2% | 24.8% |
| SG&A Exp. | 115 | 134 | 166 | 239 | 223 | 279 | 312 | 406 | 433 | 413 |
| D&A Exp. | 380 | 375 | 447 | 671 | 801 | 1,214 | 1,705 | 2,036 | 2,158 | 2,739 |
| Operating Profit | 583 | 548 | 439 | 1,116 | 1,420 | 1,709 | 2,025 | 2,884 | 3,484 | 4,048 |
| Operating Margin | 30.3% | 29.5% | 20.8% | 31.6% | 30.5% | 25.9% | 22.8% | 25.0% | 24.1% | 22.6% |
| Net Profit | 145 | 235 | 369 | 124 | 329 | 211 | 324 | 766 | 341 | 367 |
| Net Margin | 7.5% | 12.7% | 17.4% | 3.5% | 7.1% | 3.2% | 3.6% | 6.6% | 2.4% | 2.0% |
| Free Cash Flow | 237 | 112 | 63 | 767 | 523 | 961 | 1,058 | 790 | 397 | 1,753 |
| Income Tax | 79 | -4 | 15 | 173 | 364 | 278 | 291 | 614 | 560 | 581 |

Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------------------------------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets (bns) | 16.5 | 17.7 | 21.3 | 29.5 | 36.6 | 56.3 | 61.3 | 74.0 | 73.0 | 100.8 |
| Cash & Equivalents | 189 | 199 | 702 | 341 | 444 | 699 | 742 | 1,406 | 1,279 | 1,857 |
| Accounts Receivable | 268 | 300 | 395 | 738 | 1,044 | 1,741 | 1,463 | 1,847 | 2,276 | |
| Inventories | 21 | 13 | 101 | 108 | 141 | 242 | 221 | 400 | 531 | |
| Goodwill & Int. Ass. | 3,659 | 3,375 | 4,967 | 11,195 | 15,494 | 20,939 | 18,401 | 23,193 | 20,611 | 30,330 |
| Total Liabilities | 10173 | 10559 | 11,631 | 16,003 | 21,912 | 34,131 | 39,658 | 47,570 | 47,415 | 66,770 |
| Accounts Payable | 264 | 196 | 266 | 864 | 463 | 973 | 1,461 | 1,877 | 1,872 | |
| Long-Term Debt | 6,809 | 7,232 | 8,326 | 10,164 | 15,106 | 21,118 | 23,396 | 29,253 | 30,233 | 45,820 |
| Shareholder's Equity | 3,557 | 4,050 | 5,013 | 5,587 | 5,471 | 6,007 | 5,382 | 6,871 | 6,317 | 6,267 |

Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 0.9% | 1.4% | 1.9% | 0.5% | 1.0% | 0.5% | 0.5% | 1.1% | 0.5% | 0.4% |
| Return on Equity | 4.0% | 6.2% | 8.1% | 2.3% | 6.0% | 3.7% | 3.7% | 12.5% | 5.2% | 5.8% |
| ROIC | 1.6% | 2.4% | 3.2% | 0.8% | 1.6% | 0.7% | 0.7% | 1.7% | 0.7% | 0.6% |
| Shares Out. | 225 | 243 | 173 | 277 | 278 | 294 | 295 | 305 | 458 | 459 |
| Revenue/Share | 8.54 | 7.76 | 8.64 | 13.36 | 16.80 | 23.10 | 23.10 | 38.88 | 31.49 | 39.03 |
| FCF/Share | 1.05 | 0.47 | 0.26 | 2.90 | 1.89 | 3.36 | 3.36 | 2.66 | 0.87 | 3.82 |

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

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