Brookfield Infrastructure Partners L.P. (BIP)

Updated August 4th, 2024 by Kay Ng

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	14.0%	**Market Cap:**	$14B
Fair Value Price:	$35	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/30/24
% Fair Value:	87%	**5 Year Valuation Multiple Estimate:**	2.8%	**Dividend Payment Date:**	09/27/24
Dividend Yield:	5.3%	**5 Year Price Target**	$49	**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 Q2 2024 results on 08/01/24. The solid quarterly results were driven by organic growth and several years of outsized capital deployment. Recent acquisitions that contributed to results include its global intermodal logistics operation, its increased stake in a Brazilian integrated rail and logistics provide, and three data center platform investments. CEO Sam Pollock noted that: "The outlook for growth is very favorable as the surge in AI adoption is generating substantial capital deployment opportunities across our data, electric utility and natural gas sectors."

For the quarter, funds from operations (FFO) rose 10% to $608 million, reflecting organic growth of 7% and contributions related to +$1 billion of new capital commissioned over the last 12 months from its capital backlog. Ultimately, FFO per unit came in at $0.77, which was 6.9% higher versus a year ago. Year to date, FFO growth was $1.2 billion, up 11%, while FFO per unit was $1.55, up 7.6%. We maintain 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***
Shares[1]	225	243	173	277	278	294	295	305	458	462	***461***	***521***

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. Additionally, 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 +10% and dividend growth of 5-9%. We use the midpoint of the latter -- 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 and BIPC 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	***9.6***	***11.0***
Avg. Yld.	4.8%	5.0%	5.3%	4.3%	5.3%	4.5%	4.7%	3.6%	3.9%	4.7%	***5.3%***	***4.4%***

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 11 and a yield of 4.4% are fair for this quality utility. The stock appears to trade at a discount to its intrinsic value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

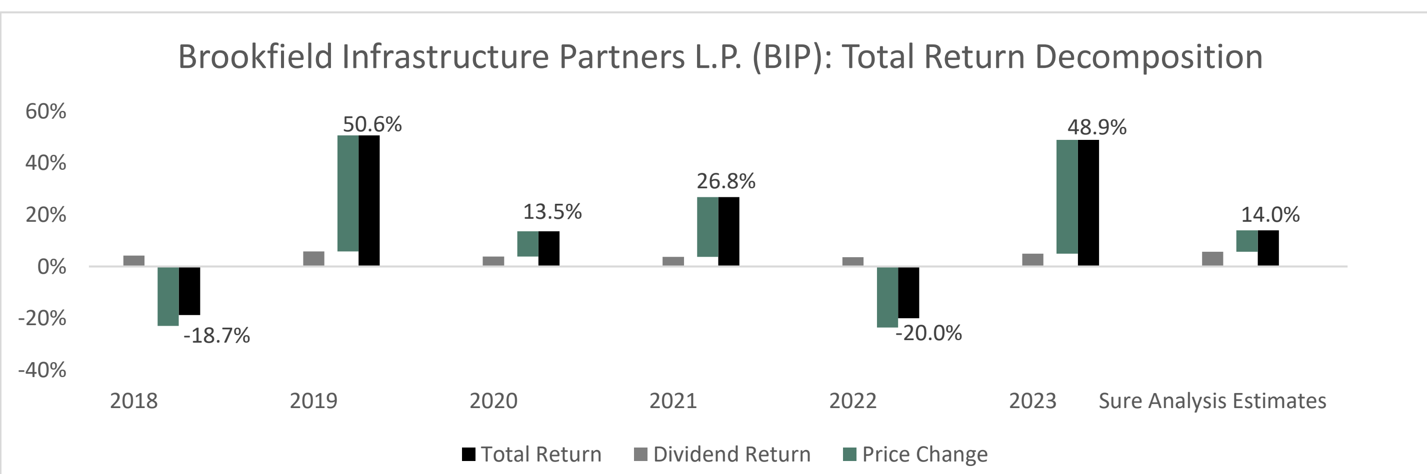
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	56%	59%	57%	56%	60%	59%	62%	56%	53%	52%	***51%***	***49%***

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 ~$2.0 billion at the corporate level. Additionally, BIP maintains a solid credit rating of BBB+. It primarily obtains financing 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 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 trades at a good valuation and can deliver total returns of about 15.5% over the next five years from a yield of 5.7%, 7.0% FFO growth, and valuation expansion of 4.1%. 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.