Brookfield Infrastructure Partners, LP

NASDAQ:BIP

Analyst: James Hannahs
Sector: Utilities

BUY

Price Target: $38

Key Statistics as of 11/28/2016

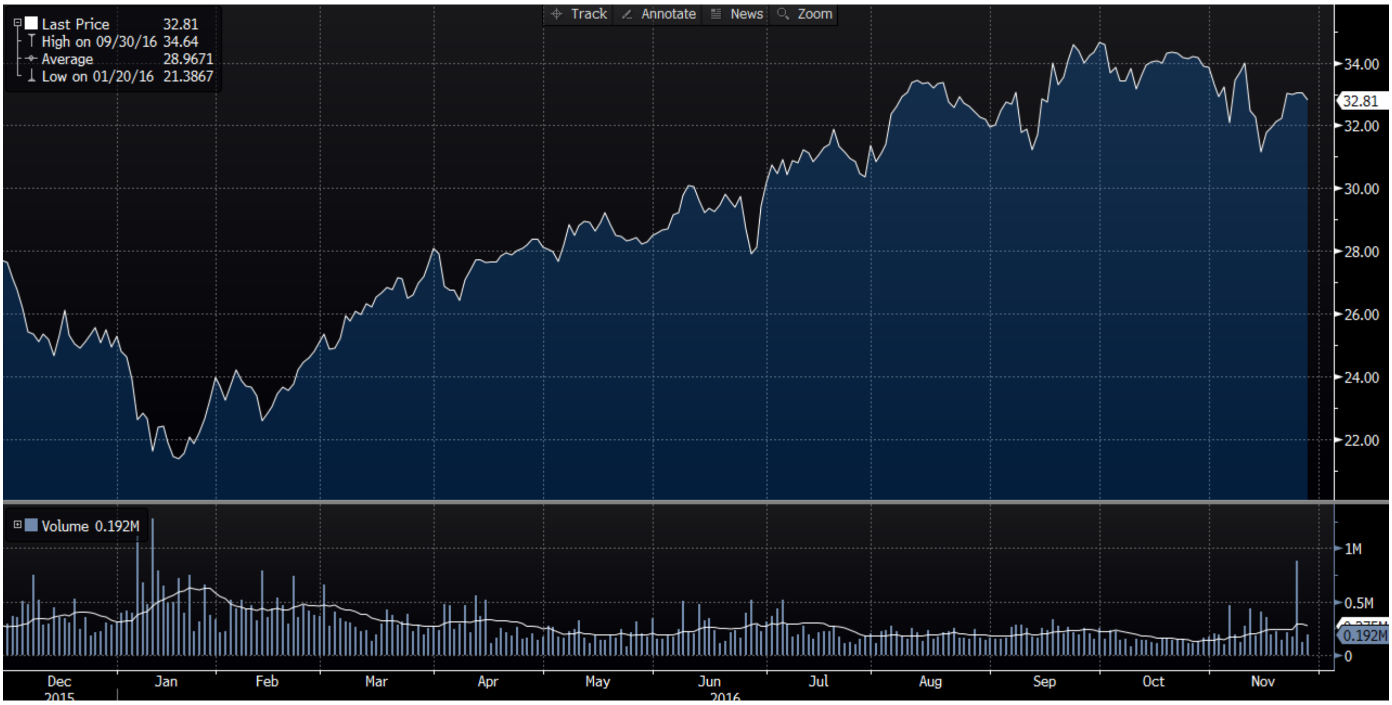
Market Price:	$32.81
Industry:	Electric Utilities
Market Cap:	$11.9B
52-Week Range:	$20.33-35.03
Beta:	1.08

Catalysts:

- Inevitable Federal Reserve rate hike
- Increasing sub-sector competition
- Telecommunication Innovations
- Aftermath of shale oil discoveries in Texas

Company Description:

Brookfield Infrastructure Partners, LP (BIP) specializes in the distribution of non-discretionary infrastructure networks including energy storage, water, freight, passengers, and data. They operate globally across five continents with a supreme strategy to acquire businesses and sell assets to reinvest in the business's capital. This allows them to corner specific segments within their operations to invest in breakthrough technologies that help diversify their revenue streams. Currently, BIP has their hand in domestic pipelines, mega infrastructure grids in nations that desperately need quality roads, and telecommunication services that will assimilate into the next era of communications; all of which are led down paths of success due to their contrarian growth strategy. Lastly, BIP is a child company of the world's oldest and arguably most effective management team, Brookfield Asset Management (BAM). BAM diversifies their revenue base beyond BIP's range of business including real estate, renewable power, and private equity on a global basis.



Sub-Sector Breakdown

BIP operates five main sub-sectors within their operations:

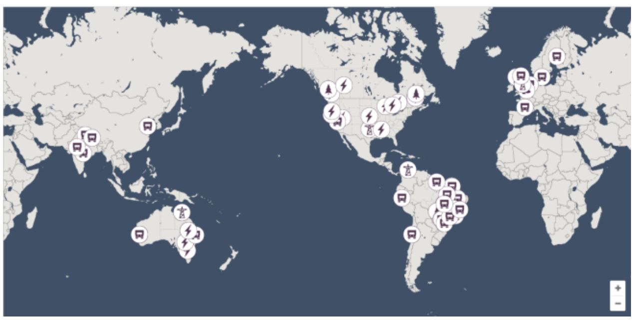
- **Utilities:** This branch alone covers four continents as their overall presence within North and South America alone outlasts a century. According to their website, BIP manages over 10,500 km of electricity transmission, 2.6m electricity and gas connections, and 85m tons of coal handling capacity on an annual basis. Currently, the utilities sub-sector is present in the U.S., U.K., Chile, Colombia, and Australia.
- **Transport:** Mainly, BIP moves essential items and people throughout diverse infrastructure networks. Under operations are 38 ports in four continents, 3600 km of toll roads across isolated regions such as South America and India, and host rail traffic in Australia and South America as well.
- **Energy:** BIP's capacity to facilitate the transmission of energy is reinforced by long-term contracts associated with large-scale clientele. On home soil, BIP's assets include a vast network of natural gas and pipeline systems, storage centers for natural gas, and expansive heating and cooling systems (also in Canada). Overseas in Australia, BIP operates gas distribution networks that are unregulated, as well as storage centers and other heating and cooling systems.
- **Communications Infrastructure:** This is where BIP provides networks to broadcasting and telecom sectors. Much like the energy aspect of the company, their communications assets provide stable cash-flows through long-term contracts with well-established clientele. In fact, BIP owns and operates 7,000 multi-purpose towers as well as 5,000km of fiber-optic networks in France alone.
- **Sustainable Resources:** BIP provides the raw materials needed to produce various goods, both discretionary and non-discretionary. Their share in the timberland and agriculture operations over two continents covers over 4.2 million acres, collectively.

How Did BIP Get There?

Through BIP's contrarian investment strategy, their main focus is geared in acquiring assets that they value as an integral part of their operations. In doing so, they are able to further branch their global positions. Below is a list and short description of major transactions:

- 2016:
  Nova Transportadora do Sudeste S.A. (NTS) – A system of natural gas transmission networks located in Brazil. BIP and conglomerates agreed to buy 90% of the company for a total of US$5.2B; BIP individual representation of $825m.
  Asciano Limited – Australian based, high quality port and rail logistics company. Conglomerates agreed to acquire the company in its entirety for approximately A$12B; BIP individual contribution of US$350m.
- 2015:
  Natural Gas Pipeline Company of America LLC (NGPL) – One of the largest interstate pipeline system, boasting 9,200 miles of pipelines. BIP jointly bought the remaining share of the pipeline with Kinder Morgan (KMI) to increase their shares from 27% to 50%, and 23% to 50% respectively. Total purchase price of $242m, $106m from BIP.

Also, earlier this year, BIP acquired a California water developer in its late stages. The plan is to build a water desalination plant in Orange County and estimate a total $800m once the operation is up and running.



Supplemental Financials

BIP proves itself to be a different animal both through operations and through financials. Using the standard free-cash-flows model cannot be attributed to a company that holds so much value with its various assets. Instead, the cash flows are measures as funds-from-operations (FFO) instead of general cash flows. The main reason being that companies like BIP have large amounts of assets that increase in value whereas typical companies take depreciation as an expense because of the products' shelf lives. FFO takes net income and adds back D&A as well as gains/losses on properties, then subtracting CapEx to come to an even more accurate figure of adjusted-funds-from-operations (AFFO). Below is a table depicting LFY AFFO figures:

Metric	Q3 2016	Q3 2015	YoY Change	YTD 2016	YTD 2015	YoY Change
Revenue	$522 million	$468 million	11.5%	$1.438 billion	$1.4 billion	2.7%
FFO	$235 million	$210 million	11.9%	$699 million	$604 million	15.7%
AFFO	$183 million	$171 million	7.0%	$581 million	$508 million	14.4%
Units Outstanding	345.3 million	346.4 million	-0.3%	345.2 million	334.8 million	3.1%
AFFO/Unit	$0.53	$0.49	7.4%	$1.68	$1.52	**10.9%**
Forward Distribution	$0.39	$0.353	**10.5%**	$1.17	$1.06	**10.5%**
AFFO Payout Ratio	73.6%	71.5%	2.9%	***69.5%***	69.8%	-0.4%

Seeking Alpha

AFFO per unit has grown double digits over the past year, indicating the most crucial aspect to investors' pockets. BIP's target circles around 5% - 9% and they have continued their streak of outperforming. Not only does FFO and AFFO stand as a key profit metric, but also a strong proxy to forecast future growth.

Those funds go towards implementing the company's attractive dividend distribution strategy of 60-70% of FFO, a figure that has maintained a 12% CAGR figure since inception.

US$, UNAUDITED	2008	2009	2010	2011	2012	2013	2014	2015	2016F
Annual Distribution[1]	$ 0.59*	$ 0.71	$ 0.73	$ 0.88	$ 1.00	$ 1.15	$1.28	$1.41	$1.55
Growth	N/A	—	4%	20%	14%	15%	12%	10%	10%

According to Seeking Alpha, BIP offers one of the highest dividend payout percentages in the entire utilities industry, which has a slow growth rate anyway. Beyond the payouts, the buying capacity of BIP is remarkable, solely based on their ability to acquire capital to invest in large-scale asset purchases. This year alone, BIP has been able to increase capital backlog by over 50%, to their highest levels to date.

The following table outlines their detailed liquidity structure:

Total liquidity was $3.0 billion at September 30, 2016, comprised of the following:

US$ MILLIONS, UNAUDITED	As of Sep 30, 2016	Dec 31, 2015
Corporate cash and financial assets	**$ 326**	$ 286
Committed corporate credit facility	**1,975**	1,875
Subordinated corporate credit facility	**500**	500
Draws under corporate credit facility	**(482)**	(407)
Commitments under corporate credit facility	**(49)**	(83)
Proportionate cash retained in businesses	**345**	257
Proportionate availability under subsidiary credit facilities	**434**	472
Total liquidity	**$ 3,049**	$ 2,900

The liquidity measures prove that BIP stays prepared to take advantages of upcoming opportunities across the globe that will further increase cash flows. In fact, with an immense amount of liquidity that BIP holds, there is a clear indication of growing AFFO for continuing periods.

As far as the company's debt structure is concerned, their D/E for the LFY was marginally above the last five year average, as their total line of credit has increased approximately 2.7x since 2011. This shows the immense amount of equity the firm has been able to balance with the increasing amount of debt. Furthermore, the company finances most of their transactions on an unlevered basis, allowing them to utilize the largest amount of backlog in the company's history. By the end of 2017, BIP will meet maturing debt obligations consisting of a $424m bond principle, an outstanding term loan of $100m, and satisfy the remainder of a bond principle maturing by year's end in total of $12m.

Finally, below is a list of crucial margins and growth percentages:

	2016 (Nine mo. End 9/30)		2015		2014		2013	
Sub-Sector	Adj. EBITDA	Margin	Adj. EBITDA	Margin	Adj. EBITDA	Margin	Adj. EBITDA	Margin
Utilities	399	87%	524	75%	519	71%	547	66%
Transport	441	49%	555	49%	599	48%	497	47%
Energy	202	55%	166	48%	139	45%	137	42%
Comm. Infr.	67	54%	66	54%	-	-	-	-
Corp./Other	(122)	-	(134)	-	(115)	-	(71)	-
Total	987		1,177		1,142		1,110	
Revenue	1,893		1,855		1,924		1,826	
Adj. EBITDA Margin	52%		63%		59%		61%	

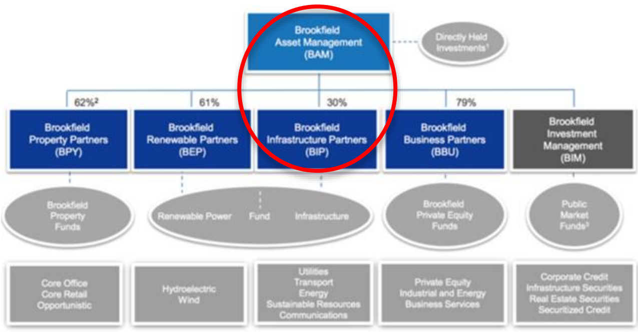
With a quarter left in BIP's fiscal year, they are optimistically advancing their EBITDA margin to become comparable with LFY's figures, suggesting growth is expanding beyond historical estimates.

	NINE MONTH ENDED 9/30		
	2016	2015 YTD	2014 YTD
Net Income	312	273	117
% Change	14%	133%	-15%

Despite the obvious jump into '15 from '14, BIP is still clearing double digit growth figures in net income, a far cry from industrial single digit moves.

Ownership and Management

Brookfield Asset Management, BIP's parent company, holds a 30% stake in the infrastructure arm, the lowest weight among the sibling companies. BAM provides superior management and guidance towards key investments and acquisitions as both companies remain supreme in the industry of infrastructure management.



The remaining 70% is open for trade on the NYSE. Below is a summary of various investors provided by the Bloomberg:

Ownership Type	11/13/16	Curr ↑	Change
11) Investment Advisor	77.19	76.65	-0.54
12) Bank	9.11	9.52	+0.41
13) Brokerage	5.14	5.38	+0.24
14) Private Equity	3.36	3.33	-0.03
15) Insurance Company	2.58	2.66	+0.08
16) Individual	1.05	1.08	+0.03
17) Hedge Fund Manager	1.06	0.81	-0.25
18) Pension Fund	0.38	0.39	+0.01
19) Unclassified	0.12	0.12	0.00
20) Corporation		0.03	
21) Other	0.01	0.01	0.00

The majority of that 70% is owned by Investment Advisors, as of 11/13/16, the last reported on the terminal. While there was a minor unloading trend coming from the advisors dropping their holdings by about half of a percentage (from 77.19% to 76.65%), banks helped offset the blow. The Bank of Montreal increased its ownership by over 500,000 shares around the time of the third quarter. This increased overall bank ownership by about .4% and settled at around 9.52%, clearly indicating an investment in the security, diversity, and innovation that BIP brings to the table.

Thanks to a superior management team, BIP can provide the secure returns that dividend investors are looking for. Let's introduce the masterminds behind the books:

- Sam Polluck – *Senior Managing Partner* – While Polluck sits as a partner for overall Brookfield, he acts as the CEO of the Infrastructure branch. He brings over 20 years of experience with the company and expertise from an accounting background paired with the knowledge of serving on the board at TWC Enterprises.
- Brian Baker – *Managing Partner, Infrastructure, Energy* – Baker is in charge of overseeing foreign affairs, specifically in Europe, and guides investment strategies within transportation, utilities, and energy sectors; the backbone of BIP. Baker joined BIP in 2007, bringing expertise from advising financial expenditures within the oil and gas arenas for various companies in Western Canada. Before his work there, he specialized on advisory work for an accounting firm focused on the oil and gas sector. Baker knows the ins-and-outs of cash flows within these sectors, and where to go to find them.
- Ben Vaughan – *Senior Managing Partner/COO* – Bringing 15 years of Brookfield experience to the table, Vaughan has been successful in increasing the cash flows of BIP by guiding the company's portfolio through numerous growth opportunities and initiatives, all while diversifying risk. He has spent time in numerous positions within the company across the different segments of BAM, and even spent time living in Brazil, an experience that proved instrumental with the company's plans for establishment within the developing company.

The three managers described above will be providing the guidance through earnings call transcripts and investor-day presentations. Investors feel confident with their levels of expertise in management, finance, and accounting that allow them to optimize the position of BIP safely and lucratively.

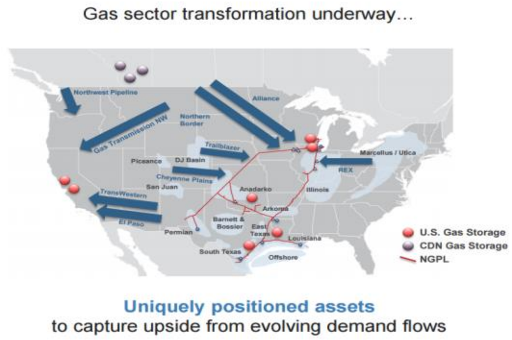
Effects of Catalysts

- Federal Reserve Rate Hike – With rates almost certain to rise come December, many municipalities and governments will be looking to deleverage their operations due to an increased expense to borrow. BIP stands at the perfect threshold to absorb the privatization of infrastructure that governments will seemingly unload. Given their capabilities and capacities to generate long-standing and quality assets, opportunities stand for BIP to slide in and take advantage of a possible deleveraging scenario.

- Increasing Sub-Sector Competition – We see this mostly within the MNO (mobile network operator, i.e. – Verizon, etc.) arena. Currently, 50% of the market for mobile towers is taken up by MNOs. These operators are taking a long and hard look to the necessity of the tower assets within their portfolios, especially when much of their CapEx should be going towards the rollout of innovative networks such as 4G and 5G. A conglomerate within BIP's investing syndicate is attempting to secure a large amount of these towers, indicating a healthy pipeline of organic growth.

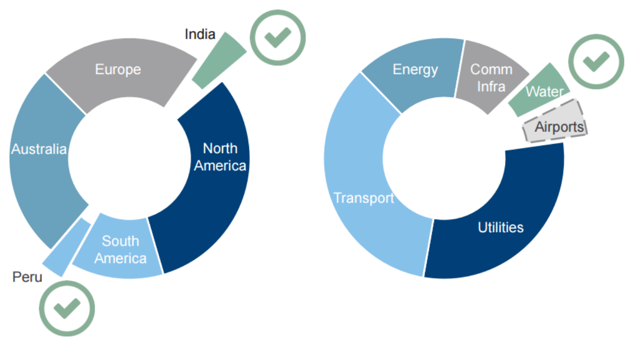
- Telecommunication Innovation – Mentioned in the sub-sector breakdown section, BIP has over 5,000km of fiber-optic networks located in France. BIP sees the demand for major broadband within the fiber-optics networks will be increasing, delivering a great opportunity to BIP. In order for them to optimize their capitalization, they can take advantage of the sheer costs to break the entry barriers of such industry, a region where the capital backlog and leveraging statistics of BIP works in their favor. The fiber-in-home aspect is still a developing concept, and with their feet already deep in the water in France, BIP has a strategic advantage over competing firms to penetrate this market share.

- Aftermath of oil discoveries in Texas – BIP's collection of energy storage facilities have opportunities for growth as they forecast structural demand to increase over the next five years. Mostly, this will be driven into Gulf Coast refineries through conglomerate access lines to Mexico, where emerging demand is also likely. On a simplistic level, due to reversals within the structure of continental pipelines, BIP's subsidiary NGPL is within the crosshairs to connect growing supply basins to emerging demand centers. With the recent discoveries of shale within the Permian region, BIP's lines are in the perfect spot for further transports, a key to increase the growth of the business.

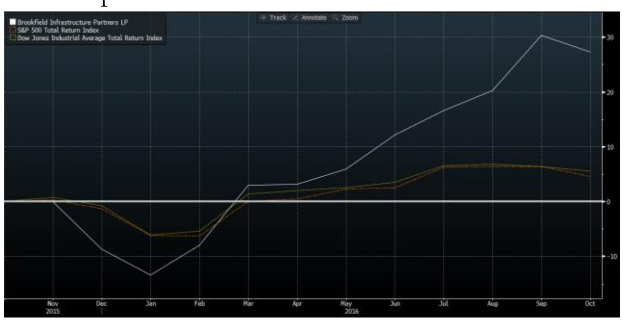


Conclusion and Thesis

Brookfield sits on the brink of continued growth. Their increasing FFO and AFFO numbers, diverse spectrum of geographic presence, and being a leader in non-discretionary services allow them to utilize their financial capacity to invest in the most valuable firms tailoring to their various sub-sectors. With a superior management team and opportunities arising from global economic factors, BIP has proven to utilize their contrarian investment strategies to capitalize in arenas others wouldn't. Between Peruvian and Indian toll roads, Australian ports, telecomm netoworks in France, continental U.S. pipeline systems, water transporting and desalination centers, and many more projects in the works, BIP has been able to capitalize globally.



Therefore, given the level of returns BIP has brought to the market compared to both the S&P 500 as well as the Dow, the company outperforms both markets. With their level of security and attractive rates of distribution, BIP would be the most productive asset in one's portfolio for the level of risk.



Formal Thesis - Brookfield distributes non-discretionary services across a broad base of diverse sectors as they specialize in the movement of goods, people, data, energy, water, and more. They utilize their competitive advantage in a non-elastic field by specializing in their ability to acquire significant portions of competing firms, or those that they believe will add momentum in order to achieving their objectives. Besides their tremendous access to capital, Brookfield's assets in various geographic areas across the globe allow them to capitalize in markets where privatization of infrastructure is necessary and sought after as well as diversify global risk. Looking forward, BIP will bring safe returns based off of their growing financials, upcoming projects, and their ability to penetrate the market with the latest and most innovative influences. Based on the NAV of BIP, using assumed cap-rates corresponding to the magnitude of each segment's EBITDA margin, the company is currently undervalued by a 14.8% discount.

Equity REIT - Sample Net Asset Value Model				
($ in Millions Except Per Share Data)				
		Assumed Cap Rate:	12-Month Forward NOI:	Current Value:
Capitalized Income:				
NOI Contribution from:				
Utilities		11.0%	$ 382	$ 3,473
Transportation		6.0%	350	5,833
Energy		6.0%	51	850
Communications Infrastructure		8.0%	54	$ 675
Corporate and Other		0.0%	(62)	-
				$ 10,831
		Balance Sheet Value:	% of BS Value:	Current Value:
Balance Sheet Assets:				
Non-Operating Assets:				
Investment Properties		153	110.0%	168
PPE		7,632	100.0%	7,632
Assets Held for Sale		580	105.0%	580
Other Balance Sheet Assets:				
Inventories		13	100%	13
Cash & Cash-Equivalents:		199	100.0%	199
Financial Assets		2,352	100.0%	439
Investments in Affiliates/Joint Ventures		2,973	100.0%	2,973
Deferred Income Tax		72	100.0%	72
Intangibles:		3,296	100.0%	3,296
Goodwill		79	100.0%	79
Accounts Receivable, Net:		322	100.0%	322
Other Assets:		64	100.0%	64
Total Asset Value:				**$ 26,655**
Liabilities:				
Total Debt, Net of Discounts:		$ 10,085	100.0%	$ 10,085
Accounts Payable:		474	100.0%	474
Accrued Expenses & Other:		-	100.0%	-
Total Liabilities Value:				**10,559**
Other Claims on Equity:				
General Partners		23	100.0%	**23**
Limited Partners		3838	100.0%	**3,838**
Noncontrolling Interests (Excl. OP):		3,126	100.0%	3,126
Preferred Stock:		189	100.0%	189
Total Other Claims on Equity Value:				**7,176**
Net Asset Value:				**$ 8,920**
Diluted Shares:				239.0
OP Units & Restricted Shares:				
Total Diluted Shares & Units Outstanding:				**239.0**
Net Asset Value Per Share:				**$ 37.32**
Current Stock Price:				**$ 31.80**
Premium / (Discount) to NAV Per Share:				**(14.8%)**