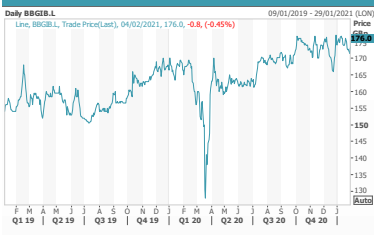




Infrastructure



Source: Refinitiv

Market data

EPIC/TKR	BBGI
Price (p)	173
12m High (p)	178
12m Low (p)	125
Shares (m)	665
Mkt Cap (£m)	1,151
EV (£m)	1,143
Market	FTSE-250 member of LSE

Description

BBGI Global Infrastructure (BBGI) has a 49-strong investment portfolio, mainly in the transport, health, justice and education sectors. The UK and Canada are its key markets.

Company information

Joint CEO	Duncan Ball
Joint CEO	Frank Schramm
Chairman	Sarah Whitney
CFO	Michael Denny
	+352 263479-1
	www.bb-gi.com

Key shareholders

M&G plc	9.42%
Schroders	8.96%
Newton Investment Management	8.46%
Investec Wealth & Investment	5.01%
Smith & Williamson	5.00%
Quilter PLC	5.00%

Diary

30 Apr	AGM
30 Jun	Half-year-end
31 Dec	Full-year-end

Analyst

Nigel Hawkins 020 3693 7075
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BBGI GLOBAL INFRASTRUCTURE

Delivering NAV and dividend growth since 2011

BBGI is a diversified social infrastructure investment company, registered in Luxembourg, and a FTSE-250 constituent. Its portfolio consists of long-term and low-risk essential infrastructure investments, which deliver stable, predictable cashflows, with progressive dividend growth and attractive, sustainable returns. It focuses on enhancing the value of its investments, which are globally diversified within highly rated investment-grade countries. Most of its investments are via Public, Private Partnerships (PPPs) or derivatives thereof. All investments are availability-based, not demand-based, and supported by government-backed revenues. The cashflow line, thus, is very reliable.

- **Background:** Central to BBGI's business are its 49 essential, social infrastructure investments; they range from bridges in North America to a hospital facility in Australia. Crucially, BBGI's equity investment portfolio comprises low-risk and public sector-financed, availability-based infrastructure investments.
- **Operations:** BBGI's main operating jurisdictions are in North America, specifically Canada, and in the UK. Revenues from virtually all of BBGI's investments are based on their availability, and not on the level of demand for them; hence, there is a bond-like predictability about future revenues.
- **Valuation:** BBGI has built up a very successful track record since its IPO in 2011, with total shareholder returns averaging 10.6% p.a. It has consistently traded at a premium to NAV, and its shares are now trading at 26.8% above their NAV; the shares are yielding 4.2% on a prospective basis.
- **Risks:** All BBGI's cashflows are from government or government-backed bodies, thereby reducing the counterparty risk factor considerably. Owing to the absence of demand-based investments, the impact of COVID-19 on BBGI's finances and operations has been marginal.
- **Investment summary:** In the quest for reliable dividends, institutional and retail investors may well focus on UK infrastructure investment companies, with their secure dividend profiles. The prospective sector yield is now just below 5%. BBGI, which plans to pay a dividend of 7.18p for 2020, is currently yielding 4.2%.

Financial summary and valuation

Year-end Dec (£m)	2018	2019	2020E	2021E	2022E
Distributions from investments	55.1	64.0	81.9	87.7	93.8
Operating costs	-15.4	-11.0	-11.9	-12.6	-13.3
Net operating cashflows	39.7	53.0	70.0	75.1	80.4
Equity investments	-90.5	-62.9	-43.0	-110.0	-110.0
Drawdown proceeds	198.6	81.8	55.0	90.0	100.0
Net proceeds from fund raise	126.1	73.9	54.0	0	83.5
Dividends paid	-26.5	-40.8	-43.6	-48.2	-53.0
Dividend per share (p)	6.75	7.00	7.18	7.33	7.50
Dividend yield	3.9%	4.0%	4.2%	4.2%	4.3%
NAV per share (p)	133.5	136.2	138.9	143.0	146.5

Source: Hardman & Co Research



Executive summary

Paying secure and rising dividends remains a priority for BBGI – many other FTSE-250 stocks have recently cut their dividend payments. Since its IPO in December 2011, BBGI's dividend has risen by 3.3% p.a., on average. For 2020 and 2021, BBGI has dividend targets of 7.18p per share and 7.33p per share, respectively, increases of 2.6% and 2.1%. It reconfirmed these targets in August 2020.

Since its IPO, BBGI has delivered an annual NAV increase of 7.8% and an annual shareholder return of 10.6% – both are impressive figures in today's challenging financial environment. With a June 2020 NAV of 136.4p per share, BBGI is currently trading at 26.8% above its NAV.

Resilience has been the hallmark of BBGI's recent share price performance. Having plunged from 169.5p on 13 February to 128p by 19 March – a fall of almost 25% – when the COVID-19 investment panic caused heavy index-selling, BBGI's share price has rallied strongly. By 7 April, it had fully recovered to 170p, and it has recently reached a record level.

BBGI background

BBGI is listed on the premium segment of the Official List of the UK Financial Conduct Authority (FCA).

Outperformance since 2011 IPO

The IPO of BBGI took place in December 2011. Subsequently, BBGI has outperformed its financial targets, in terms of both raising its NAV, through accretive investment, and in delivering real dividend growth, in an era of challenging market conditions. Indeed, its share price performance has been broadly twice as good as that of the FTSE-250 over the nine-year period since its IPO.

Strategy: low-risk, globally diversified and internally managed

In terms of strategy, BBGI has set out its three strategy pillars: i) being low-risk; ii) being globally diversified; and iii) being internally managed. Its investment policy is built around these three pillars. As BBGI is internally managed, it offers three specific benefits:

- ▶ It consistently maintains the lowest comparative ongoing charges for its shareholders.
- ▶ Neither NAV-based management nor acquisition fees are charged.
- ▶ The internal management team's interests are fully aligned with those of shareholders.

Portfolio

49 investments

BBGI is quite specific in terms of its investments, of which there are currently 49 – all are required to meet the criteria that its strategy lays out.

50% to roads/bridges

Half of BBGI's investment portfolio has been allocated to the availability-based roads and bridges sector. The healthcare component amounts to 23%, while justice and education account for 14% and 11%, respectively.

Canada and UK preferred jurisdictions

Geographically, BBGI's portfolio straddles Canada and the UK. Both jurisdictions have established – and widely-respected – legal systems, with a history of dealing with the issues around infrastructure investments. The country exposures, on an investment basis, are 36% and 30%, respectively. BBGI's remaining investments are split almost equally among Australia, Continental Europe and the US.

Risks

Still some risks

Despite BBGI being a low-risk business – and certainly when considered alongside most of its comparators – it still faces various risks. The most pronounced are:

- ▶ **Discount rate movements:** The chosen discount rate has a major impact upon its NAV. Selecting the appropriate discount rate to value the cashflows is a rigorous process, based on market observations and recent transactions; it is undertaken by BBGI's Management Board. BBGI's Audit Committee approves the methodology and checks the assumptions and the outcome. The valuation is reviewed by an independent third-party valuation expert and by the auditor, KPMG. BBGI currently uses a weighted average discount rate of 7.03%, with its investments valued within a range of 6.25% to 9.00%.
- ▶ **Falling inflation:** BBGI is exposed to lower inflation, especially with respect to its NAV figure. In many, although not all, of its contracts, BBGI has built-in inflation linkage.
- ▶ **Poor investment decisions:** Any investment company is beholden to the quality of its investments and to the managers making investment decisions – as the long-running Woodford saga illustrates. Given the consistent rise in its NAV since its IPO in 2011, BBGI can argue – with conviction – that its overall decision-making has been very good.
- ▶ **Foreign exchange movements:** With just 30% of its investments being sterling-denominated, BBGI is exposed to currency movements, especially with respect to the Canadian dollar. It takes precautions to mitigate this particular risk through a bespoke currency hedging strategy, including the use of financial instruments.
- ▶ **Counterparties:** Given the many counterparties with whom it contracts, BBGI is at risk if one of its major counterparties faces serious financial or operational issues. BBGI is assiduous in seeking to reduce its counterparty risk, which is well-spread among high-quality companies.

Financial Matters

Impressive performance since 2011 IPO

Since its IPO in 2011, BBGI has increased its NAV from 97.9p per share to 136.4p per share. There have been two major drivers for this rise in NAV over the intervening period.

- ▶ First, asset value enhancement over the nine years has yielded a 20.2% increase in NAV, equivalent to 19.8p per share.
- ▶ Secondly, the market discount rate has fallen by ca.150bps (although by less than risk-free interest rates), which has given rise to a 12.5% uplift in the NAV.

We expect BBGI's consistent growth in NAV to continue as the Hardman & Co model below, up until December 2022, shows.

Hardman & Co financial projections for BBGI					
Year-end Dec (£m)	2018	2019	2020E	2021E	2022E
Cash and cash equivalent, 1 January	20.6	10.4	34.8	47.8	36.6
Distributions from investments	55.1	64.0	81.9	87.7	93.8
Operating costs	-15.4	-11.0	-11.9	-12.6	-13.3
Net operating cashflows	39.7	53.0	70.0	75.1	80.4
Equity investments	-90.5	-62.9	-43.0	-110.0	-110.0
Proceeds from drawdowns	198.6	81.8	55.0	90.0	100.0
Net proceeds of fund raise	126.1	73.9	54.0	0.0	83.5
Dividends paid	-26.5	-40.8	-43.6	-48.2	-53.0
Repayment of loans and borrowings	-258.4	-81.0	-80.0	-20.0	-90.0
Cash and cash equivalent, 31 December	10.4	34.8	47.2	34.1	45.0
Cash dividend cover (x)	1.50	1.30	1.61	1.56	1.52
Dividend per share (p)	6.75	7.00	7.18	7.33	7.50
NAV per share (p)	133.5	136.2	138.9	143.0	146.5
Number of shares (m)	556.0	605.1	665.0	665.0	714.9

Source: Hardman & Co Research

Dividends

BBGI's 3.3% annual dividend rise since 2011 hits the spot

BBGI's dividend payments have risen by an average of 3.3% p.a. since its IPO in 2011. Although the annual increase may not be spectacular – and may be lower in coming years – BBGI's dividend payment record has been impressive.

For 2020, BBGI has signalled to the market to expect a full-year dividend of 7.18p, an increase on the 2019 payment of 2.6%. We estimate that the cash dividend cover will be 1.61x. For 2021, BBGI has already published a target dividend figure of 7.33p, representing a 2.1% uplift on 2020 – and, therefore, an increase in real terms. These targets were reaffirmed by BBGI in August 2020. BBGI has also seen impressive total shareholder returns since 2011, as illustrated by the chart below.

7.33p dividend target for 2021



Source: BBGI

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The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

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