14 December 2020

HARDMAN & CO.

Infrastructure

Source: Refinitiv

Market data

EPIC/TKR	**BBGI**
Price (p)	**171**
12m High (p)	178
12m Low (p)	125
Shares (m)	665
Mkt Cap (£m)	1,137
EV (£m)	1,129
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

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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

31 Dec	Financial year 2020 ends

Analyst

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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 of its investments are availability-based, not demand-based, supported by government-backed revenues; hence the cashflow line 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% per year. It has consistently traded at a premium to NAV, and its shares are now trading at 25.4% 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 ca.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%	4.1%	4.2%	4.3%	4.4%
NAV per share (p)	133.5	136.2	138.9	143.0	146.5

Source: Hardman & Co Research

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Note: Share prices as at close on 11 December 2020

Executive summary

- While some other quoted infrastructure investment companies have been adversely impacted by the COVID-19 pandemic, BBGI's exposure – due to its lack of demand-based investments – has been minimal. Its revenues – distributions received from its 49 globally diversified investments – are virtually all earned from investments in availability-based assets; they are not dependent on demand levels.

- BBGI recognises that securing the appropriate counterparties is a key element in maintaining its low-risk profile. The strength of those with which it has chosen to work enable it to continue to deliver strong – and very reliable – cashflow from its high-quality portfolio of non-recourse equity investments.

- 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% per year, 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 25.4% above its NAV, higher than the other seven infrastructure investment companies that we analyse in this report. Indeed, BBGI's shares have historically traded at a premium to its NAV, reflecting the market's long-standing view that the portfolio is conservatively valued and the low-risk nature of its investments.

- 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. Moreover, it has just raised £55m (gross) through a share issue – at a discount of just 1.2% to its current share price.

- BBGI has followed a consistent strategy, and is internally managed; thereby, it is able to align stakeholder interests, while ensuring that value preservation and enhancement are at the core of its aim to boost shareholder returns. Accretive acquisitions and further reductions in charges – currently the lowest in the sector – also remain priorities.

- Overall, BBGI's risks are comparatively low, although its returns are susceptible to a rise in interest rates and its potential impact on its discount rate, and to falling inflation. With self-imposed 25% caps on both construction and demand-related investments, these risks are further mitigated.

- Each of the seven other quoted UK infrastructure investment companies we analyse have a minimum ca.£1bn market value, including HICL Infrastructure and 3i Infrastructure. Two of these stocks – Greencoat UK Wind and TRIG – are renewable energy infrastructure companies. The eight quoted companies currently have a £17.0bn market value.

- Many of these companies – although not BBGI – are currently struggling to grow their NAVs. Extensive fair value (FV) downward adjustments, particularly to demand-based investments, of which BBGI has none, along with the adverse impact of the COVID-19 crisis and lower long-term power prices, have all depressed sector NAVs.

Background

Increasingly, governments looking to private sector for help on infrastructure projects – financing, as well as construction

In recent decades, demand for new infrastructure investment, not only in the UK but also in other advanced economies, has risen sharply. In part, this is due to the need to renew old investments, especially in the transport sector, and to create new infrastructure. There has also been a pronounced rise in investment to modernise health and education facilities.

For governments, this scenario has created real challenges, especially given the ever-rising demand on public finances. As such, governments have generally decided to outsource – wherever possible – much of this investment, not only in terms of designing, building, operating and maintaining the new facilities, but also in financing them.

In the latter case, various initiatives have been introduced over the years, including PPP (Public, Private Partnerships) and, more specifically, PFI (the Private Finance Initiative) schemes.

Very few failures and barriers to entry

The overall record for investors of PPP and PFI projects has been impressive, with very few financial failures. Furthermore, the barriers to entry are quite high – a first-class record and years of top-class financial, legal and operational expertise in infrastructure investment, such as that offered by BBGI, are necessary. Consequently, the market tends to be focused around a few key players.

There have, at times, been challenges in the UK, especially with the collapse of Carillion in 2018, which had suffered from long delays and heavy cost overruns on several projects in construction. Moreover, the Labour Party had proposed far-reaching PPP and PFI changes – to the clear detriment of shareholders. Its heavy defeat at the 2019 General Election has markedly reduced the political risk to the sector. In other markets, such as Australia, Canada and parts of Continental Europe, such financing initiatives enjoy far greater political support.

Buoyant stock market sector

As such, this infrastructure outsourcing trend has given rise to a relatively new – and financially buoyant – sector in the UK stock market. Within little more than a decade, eight quoted infrastructure investment companies, worth a combined £17.0bn, have attained a market capitalisation of a minimum ca.£1bn each – most of this equity was raised on UK stock markets.

BBGI

BBGI is listed on the premium segment of the Official List of the UK Financial Conduct Authority (FCA), and comfortably fits into this group of eight.

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 highlighted in the table below.

Strategic pillars		
Investment strategy		
Low-risk[1]	**Globally diversified**	**Internally managed**
Availability-based investment strategy	Focus on highly rated investment grade countries	Alignment of interest
Secure public sector-backed contracted revenues	Stable, well-developed operating environments	Shareholder value first, portfolio growth second
Stable and predictable cash flows	Global portfolio, serving society	Lowest comparative ongoing charges[2]
Consistent delivery of objectives		
Robust total shareholder returns	Progressive long-term dividend growth	Strong stakeholder relationships resulting from focus on investment stewardship

1. In comparison with other equity infrastructure investment classes.
2. In comparison with the latest publicly available information for all LSE-listed equity infrastructure investment companies.
Source: BBGI

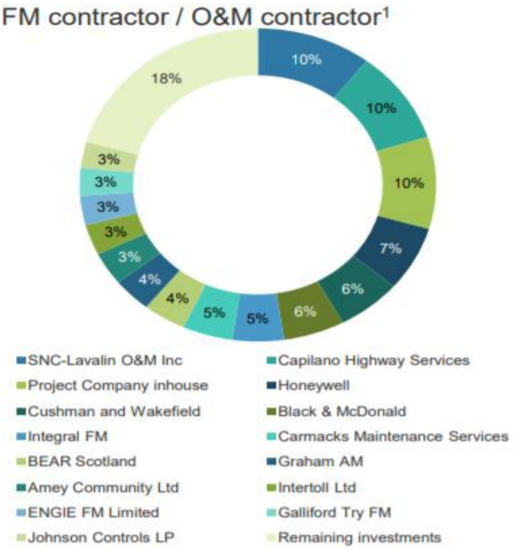
As BBGI is internally managed, it offers three specific benefits:

- 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.

Quality and secure counterparties are key

Central to implementing BBGI's investment strategy is its recognition of the importance of diversified and credit-worthy counterparties, at the operational level and in respect of financial risk. Hence, high-quality counterparties are sought to mitigate risk. HICL Infrastructure's £33m write-off, due to Carillion's financial collapse in 2018, emphasised the need to accord real priority to counterparty risk. In the pie chart below, BBGI's counterparty liabilities are highlighted. BBGI has a well-diversified supply chain.

BBGI – counterparty exposure



1. When a project has more than one FM contractor and/or O&M contractor, the exposure is allocated equally among the contractors; Source: BBGI

Portfolio

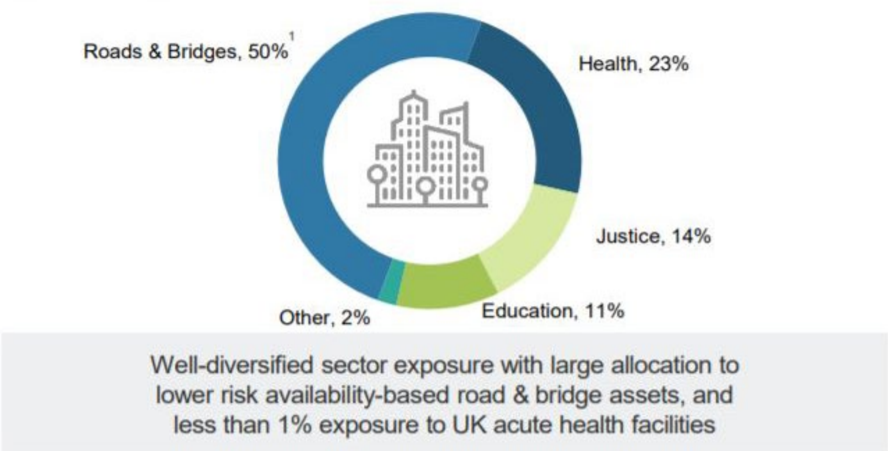
49 investments

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. Significantly, there is no utility, energy or demand-based investment, unlike most other infrastructure investment companies, as the pie chart below shows.

BBGI – sector split



1. This includes one rail asset in Canada; Source: BBGI

Canada and UK preferred jurisdictions

Geographically, BBGI 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, as the pie chart below highlights.

BBGI – geographical split

Source: BBGI

The BBGI core portfolio

The table below sets out the key criteria of the leading 22 investments owned by BBGI. All have a minimum £100m of investment volume – debt and equity – and are listed in descending order, depending upon the level of BBGI's actual – or projected – investment.

In assessing the investment that BBGI itself has undertaken, virtually all of which will have been equity, we have assumed, in respect of the smaller investments, a 90% debt/10% equity financing split. In a few cases, some of these equity investments may have been materially different from our assumptions.

For the five larger investments, more specific projections have been made of the actual sums invested by BBGI.

BBGI – top equity investments

Investment	Location	Investment cost (£m)	Equity owned (%)	10% equity/90% debt (£m)	Start date	End date
Golden Ears Bridge	Vancouver, Canada	648	100.0	86	01/06/2009	01/06/2041
Ohio River Bridge	Louisville/Indiana, US	928	66.7	86	01/12/2016	01/09/2051
Northern Territory Secure Facilities	Near Darwin, Australia	341	100.0	60	01/11/2014	01/10/2044
McGill University Health Centre	Montreal, Canada	1,167	40.0	40	01/10/2014	01/09/2044
A1/A6 Motorway	Netherlands	682	37.1	40	01/07/2017	01/06/2042
Northwest (Anthony Henday)	Edmonton, Canada	679	50.0	34	01/11/2011	01/10/2041
Canada Line	Vancouver, Canada	1,099	26.7	29	01/08/2009	01/07/2040
Northeast Stoney Trail	Calgary, Canada	246	100.0	25	01/11/2009	01/10/2039
Mersey Gateway Bridge	Liverpool, England	650	37.5	24	01/10/2017	01/03/2044
Women's College Hospital	Toronto, Canada	200	100.0	20	2013 to 2016	01/05/2043
Royal Women's Hospital	Melbourne, Australia	174	100.0	17	01/06/2008	01/06/2033
M80 Motorway	Lanarkshire, Scotland	310	50.0	16	01/08/2009	01/08/2034
M1 Westlink	Belfast, Northern Ireland	161	100.0	16	01/02/2006	01/02/2036
Kelowna and Vernon Hospital	British Columbia, Canada	251	50.0	13	01/01/2012	01/08/2042
Victoria Prisons	Victoria, Australia	134	100.0	13	Spring 2006	01/05/2031
Southeast Stoney Trail	Calgary, Canada	304	40.0	12	01/11/2013	01/09/2043
Restigouche Hospital Centre	New Brunswick, Canada	122	80.0	10	01/06/2015	01/10/2044
Northern Commuter Parkway	Saskatoon, Canada	180	50.0	9	01/10/2018	01/09/2048
William R Bennett Bridge	British Columbia, Canada	107	80.0	9	01/05/2008	01/06/2035
Kent Schools	Kent, England	106	50.0	5	01/06/2007	01/11/2035
Stanton Territorial Hospital	Yellowknife, Canada	173	25.0	4	01/12/2018	01/12/2048
N18 Motorway	East Netherlands	118	52.0	3	01/04/2018	01/04/2043
	Totals	*8,780*		*571*		

Source: Hardman & Co Research

Golden Ears Bridge and Ohio River Bridge are key

This analysis indicates that the two North American bridge projects – Golden Ears, near Vancouver, Canada, and the Ohio River Bridge, on the Kentucky/Indiana border in the US – are the two largest projects in terms of investment by BBGI, at 10% each of BBGI's portfolio value. The concessions end in 2041 and 2051, respectively.

The three next largest investments are the Northern Territory's Secure Facilities project, near Darwin, Australia, at 7%, McGill University Health Centre, in Montreal, Canada, at 5%, and the A1/A6 Diemen-Almere motorway, in the Netherlands, at 5%.

Further details of these five core projects are set out in *Appendix II*.

The top five investments account for 37% of BBGI's total returns, while its leading 22 investments provide ca.80% of total returns.

Strong pipeline

BBGI has a strong pipeline of possible investments, despite the struggling global economy. Four potential projects, two of which have a total investment value of over £1bn, have been cited. They are:

- A ca.£1.5bn EU road project, for which BBGI has been shortlisted.
- A £950m North American transport project, for which BBGI has also been shortlisted.
- A ca.£800m UK offshore wind electricity transmission line project (OFTO), part of Ofgem's TR6 tender round.
- Five SNC-Lavalin investment projects in Canada, with a total equity value of ca.£145m.

Although BBGI is unlikely to participate in all four of the above projects, each would make a material contribution to BBGI's total investment income. The exact amount would be very dependent upon the size of the equity stakes that BBGI took.

Secondary tuck-in investment

BBGI also invests at a secondary level, where either an opportunity to buy an equity stake in a new project emerges, or where it may decide to increase its stake in an existing investment. Significantly, some construction companies are often ready sellers, as they seek to avoid owning majority stakes, which need to be consolidated in their accounts.

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:** Like other infrastructure investment companies, 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%. BBGI's average rate is similar to those of most of its comparators, despite the fact that it has a lower risk profile in comparison. If this rate were to rise appreciably, it would markedly reduce NAV.

- **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 – HICL's £33m Carillion-related write-off in 2018 illustrates this risk, although these were largely construction-related. BBGI is assiduous in seeking to reduce its counterparty risk, which is well-spread among high-quality companies. BBGI currently has less than 1% of its investments in the construction phase.

- **COVID-19 (see below)**

COVID-19's financial mayhem

COVID-19 – aside from the vast number of premature deaths that it has caused – has also brought about financial mayhem. During March 2020, the FTSE-100 fell from 6,581 on 2 March to just 4,899 during 16 March – a plunge of over 25% within a fortnight. The Index subsequently rallied to reach 5,564 by the end of that month.

BBGI has suffered no material COVID-19-related financial or operational impacts, mainly because its cashflow is not materially affected by demand levels, unlike, for example, HICL Infrastructure, 19% of whose portfolio is dependent on returns that are correlated to GDP. Indeed, the absence of demand-based investments in BBGI's portfolio has been distinctly beneficial in recent months.

Direct sector implications

COVID-19 has directly impacted other infrastructure investment companies, with INPP incurring some delays in building the Thames Tideway super sewer and lower traffic on the Diabolo Rail line in Belgium. COVID-19 has also been a major factor in weakening long-term power prices, which have reduced the NAVs of both Greencoat UK Wind and TRIG.

BBGI's share price bounced back after March

It was no surprise, therefore, that BBGI's share price bounced back from the plunge last March, as investors panicked about the impact of COVID-19, which saw heavy index-selling. The graph below highlights BBGI's performance since November 2019, which produced the now familiar share price chasm in March.

BBGI – share price, December 2019 to December 2020

Source: Hardman & Co Research

Interim results

BBGI published its 2020 interim results (to 30 June) in August 2020. Importantly, unlike many other FTSE-250 companies, it was barely affected by COVID-19, largely because, as noted, it owns no demand-based investments.

Impressive investment distribution growth

Indeed, BBGI's level of distributions from its 49 equity investments rose from £31.6m in 1H'19 to £42.3m in 1H'20.

Fair value impact

However, in accounting terms, operating income was down in its latest 1H by over 13%, due mainly to the market-related FV reporting methodology. Furthermore, there were some one-off items, including a £5.1m net loss from currency-related derivative financial instruments, which was more than offset by foreign exchange gains on the portfolio value. As a policy, BBGI hedges most of its foreign currency earnings, and it is prepared to absorb comparatively modest losses to lower its overall risk profile.

Reproduced below is an abridged version of BBGI's income statement for 1H'20.

BBGI – income statement, 1H'20

£000	1H'20	1H'19
Operating income	36,846	42,797
Operating expenses	-10,721	-10.363
Operating profit	26,125	32,434
Profit before tax	19,151	25,741
Profit from continuing operations	17,654	24,341
EPS (p)	2.80	3.86

Source: BBGI

Set out in the table below is BBGI's statement of financial position for 1H'20.

BBGI – statement of financial position at 30 June 2020

£000	at 30/06/2020	at 31/12/2019
Assets		
Property and equipment	56	61
Investments at FV through profit or loss	860,567	845,967
Derivative financial assets	-	605
Non-current assets	**860,623**	**846,633**
Trade and other receivables	1,654	3,876
Other current assets	819	594
Derivative financial assets	-	756
Cash and cash equivalents	15,246	34,778
Current assets	17,719	40,004
Total assets	**878,342**	**886,637**
Equity		
Share capital	715,133	714,280
Additional paid-in capital	645	965
Translation reserves	-597	-597
Retained earnings	142,581	146,984
Equity attributable to the owners of the company	857,762	861,632
Liabilities		
Loans and borrowings	6,472	20,318
Derivative financial liabilities	3,642	-
Non-current liabilities	**10,114**	**20,318**
Loans and borrowings	170	116
Trade payables	322	353
Derivative financial liabilities	6,771	-
Other payables	1,684	2,515
Tax liabilities	1,519	1,703
Current liabilities	**10,466**	**4,687**
Total liabilities	**20,580**	**25,005**
Total equity and liabilities	**878,342**	**886,637**
NAV attributable to the owners of the company	**857,762**	**861,632**
NAV per ordinary share (p)	**135.90**	**136.72**

Source: BBGI

Valuation

Growth pursuit – but not at expense of higher risk

BBGI's successful investment strategy has been a key factor in the consistent rise of its NAV. It has demonstrated both its ability to grow, and, importantly, its ability to remain disciplined as it expands. Hence, there is no wish to move up the risk spectrum simply in the pursuit of growth.

The table below, extracted from the 2019 accounts, provides a breakdown of the investment movements. In 2019, new investment dropped by around a third compared with 2018. The figures for 2020 are also expected to show a levelling off in investment, although this may change in 2021 – depending largely on whether BBGI wins any of the major contracts for which it has been shortlisted – and the extent of any subsequent investment.

BBGI – investment movements

£000	2019	2018
Balance at 1 January	780,356	675,314
Acquisitions of/additions in investment (FV)	62,900	90,515
Income from investments	69,772	70,149
Distribution received from investments (FV)	-63,988	-55,067
Reclassification to other receivables	-3,073	-555

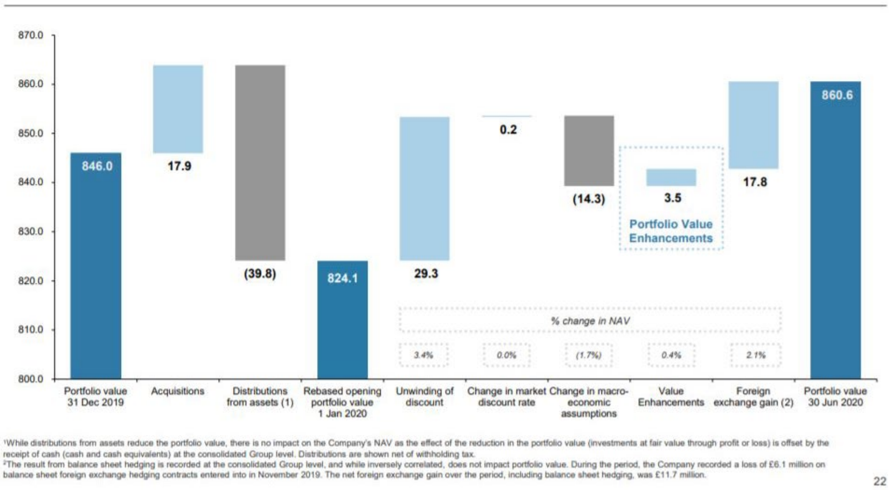
Source: BBGI income statement 2019

Discount rate is major factor in determining NAV

Irrespective of the investment level – and notwithstanding the specifics of FV accounting – there are many other elements that determine the NAV for infrastructure investment companies such as BBGI, with the chosen discount rate being the major factor.

In its 1H'20 results, BBGI confirmed that its NAV had risen by a relatively modest £14.6m. The chart below highlights the NAV changes that occurred between 1 January 2020 and 30 June 2020.

BBGI – portfolio value movement (£m)



Source: BBGI

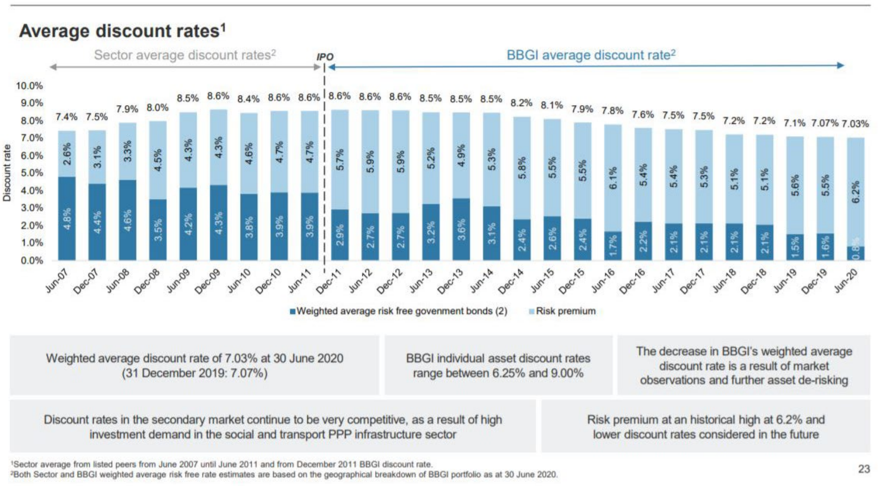
Several issues merit comment:

- The weighted average discount of 7.03% compares with 7.07% at December 2019 – the former figure is based on a range of between 6.25% and 9.0%. Given that the weighted average discount rate is less than 1% above the lower figure, it suggests that few investments are discounted near the outlying – and considerably higher – 9% figure; we believe that some acute hospital investment falls into the latter category.
- Secondary market discount rates have become very competitive, especially in the transport and social sectors.
- The historically high-risk premium – over the risk-free rate – is 6.2%.
- BBGI has flagged that it may apply lower discount rates; by implication, this may follow a lower risk premium when compared with the risk-free rate.

Widening risk premium

In the case of the latter two issues, the graph below illustrates how the premium over risk-free yields has widened in recent years.

BBGI – discount rates



Source: BBGI

6.2% gap over risk-free rate

In June 2020, the premium – over the risk-free rate of 0.8% – was 6.2%. For various reasons, including quantitative easing, risk-free government bond yields are currently at historical lows, despite the massive increases in government borrowing and gilt issuance to finance it in recent years.

For BBGI, this widening gap suggests that there is a strong case to assess whether its current discount rate is too high – commensurate with its low-risk operating profile.

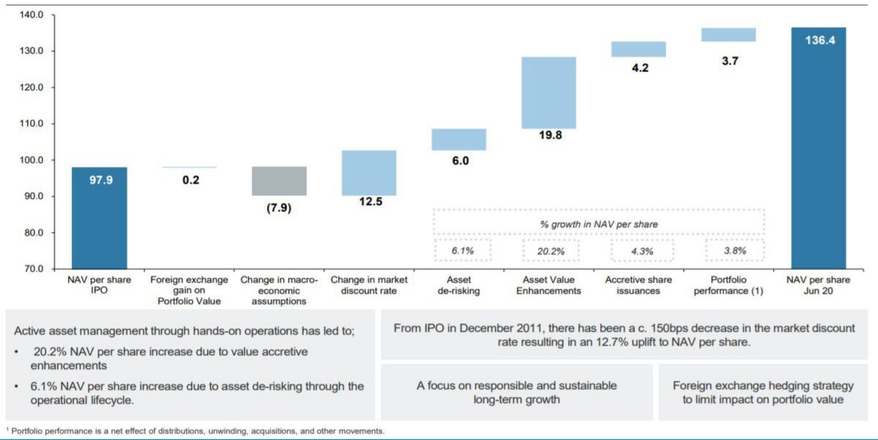
Since its IPO in 2011, BBGI has increased its NAV from 97.9p per share to 136.4p per share.

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.

As the chart below shows, these two factors – one very much within management's control and the other far less so – have been crucial in increasing BBGI's NAV.

NAV per share movement (p) – NAV up 39% since IPO



Source: BBGI

In its recognition of the pivotal valuation role of the chosen discount rate, BBGI has published a sensitivity analysis of its exposure to major changes in this rate – and especially of the negative implications of a higher discount rate.

1% either way discount rate sensitivity

The analysis shows that a 1% rise in the discount rate to 8.03% would cut NAV by ca.£83m, equivalent to almost 10%. On the upside, a 1% cut in the discount rate would yield a benefit of ca.£73m, equivalent to an 8.4% rise in NAV. Clearly, these are large swings.

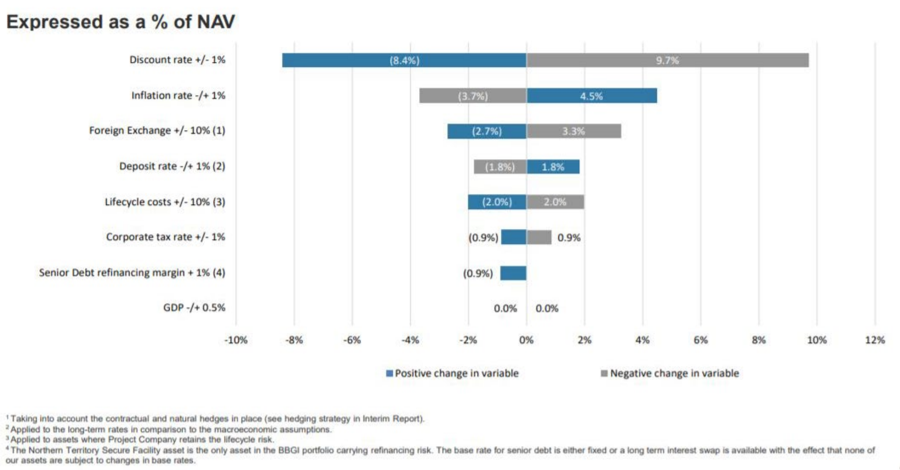
1% either way on inflation has major valuation implications

BBGI's sensitivity to changing inflation rates is also apparent. A 1% rise in inflation in all regions – above its current assumptions – would yield a near £39m valuation benefit; if inflation were to fall by 1% – against current assumptions – the hit to BBGI's valuation would be almost £32m.

The foreign exchange exposure is less pronounced, although a 10% swing in all currencies against sterling in either direction would impact the overall valuation by ca.3%.

BBGI's sensitivity to changed discount rates, inflation trends and foreign exchange movements is set out in the chart below.

BBGI – key sensitivities



Source: BBGI

In the longer term, BBGI seems set to benefit considerably from a strong cashflow profile, which assumes income of at least £2,300m between 2020 and the end of 2041. Few quoted FTSE-250 stocks can offer such secure and long-term cashflow streams.

Hardman & Co's DCF valuation produces very similar outcome to BBGI's assumptions

In assessing the value of this projected cashflow until 2051, our DCF model, based on a mid-range discount rate of 7% – almost identical to BBGI's own discount rate assumption – shows a very similar valuation to that announced by BBGI at its half-year results in 2020.

Discount rates at the lower end, of 6%, and at the upper end, of 8%, have also been used. Again, not surprisingly, given the very similar DCF methodology, they are also very close to BBGI's latest valuation data.

Beyond BBGI, other infrastructure investment companies face similar – although far from identical – risks to changed discount rates.

Comparative discount rates

Set out below are the latest weighted average discount factors reported by BBGI's comparators – we have omitted Sequoia Economic Infrastructure on account of the rather different methodology that it uses to value its loan portfolio. Given the many variables, notwithstanding the differing modes of calculation, strict read-across comparisons are potentially misleading; they do, however, provide a guide on comparative weighted average discount rates.

The anomaly is 3i Infrastructure

The anomaly is clearly 3i Infrastructure, which has prospered of late. It undertakes equity investments with a materially higher risk profile and has considerably lower revenue visibility, as well as extensive private sector dealings – a very different scenario from that of BBGI and its long-term, secure availability-based public-sector contracts.

Comparative discount rates

Infrastructure investment company	Latest discount rate
3i Infrastructure	11.20%
BBGI	7.03%
GCP Infrastructure	7.40%
Greencoat UK Wind	7.20%
HICL Infrastructure	7.00%
INPP (portfolio discount figure)	7.08%
Sequoia Economic Infrastructure	n/a
TRIG	7.00%

Source: Company accounts, Hardman & Co Research

Lower long-term power price impact

It is also the case that those infrastructure investment companies that have invested in renewable electricity projects – most notably Greencoat UK Wind and TRIG but also, to a lesser extent, GCP Infrastructure – have been adversely impacted by lower long-term power prices. The NAVs of the first two aforementioned infrastructure investment companies were recently cut to reflect this trend – along with other adjustments – by £74.4m and £123.1m (net), respectively.

Financial matters

At the heart of BBGI's overall strategy, which leans heavily on the side of prudence, are three key investment parameters; these are set out below:

- No single investment should exceed 25% of the portfolio value.
- Construction-based investments should not account for more than 25% of the portfolio value.
- Demand-based investments should not represent more than 25% of the portfolio value.

Furthermore, in terms of financial leverage, a 33% cap on the portfolio value has been specified.

Avoiding demand-based investments has been beneficial recently

Sticking to these self-imposed criteria has served BBGI well to date, especially with respect to the limitation on investment in demand-based investments, which – in some sectors, such as toll roads and railways – have generally fared far less well as a result of COVID-19.

Income statement

FV accounting impacts

Like other infrastructure investment companies, BBGI adopts FV accounting principles, which require valuation changes to be taken through the income statement. Given that most of BBGI's investments are Level 3 – a category used for valuation purposes, where there are no available quoted comparators – a considerable element of judgement is involved in determining underlying changes in valuation, not least during the rollercoaster stock market experience of March 2020.

On the top line for the 2019 financial year, BBGI reported operating income of £69.8m, compared with £74.1m for 2018; in the latter year, this figure was boosted by a £3.9m credit under "other operating income", which was mainly a gain on derivative financial instruments.

On the cost line, administrative expenses rose from £7.8m in 2018 to £8.5m in 2019, a seemingly large rise, but due mainly to a one-off 48% rise in legal and professional fees related to acquisitions. The "other operating expenses" line was also up from £4.1m to £5.3m, which was attributable to a loss on derivative financial instruments.

BBGI's income statement for 2019, with comparisons for 2018, is shown below:

BBGI – 2019 consolidated income statement

For the year ended 31 December 2019

In thousands of Pounds Sterling	Note	2019	2018
Continuing operations			
Income from investments at fair value through profit or loss	10	**69,772**	70,149
Other operating income	9	**-**	3,937
Operating income		**69,772**	74,086
Administrative expenses	6	**(8,488)**	(7,823)
Other operating expenses	7	**(5,271)**	(4,057)
Operating expenses		**(13,759)**	(11,880)
Results from operating activities		**56,013**	62,206
Net finance result	8	**(2,029)**	(3,874)
Profit before tax		**53,984**	58,332
Tax expense	12	**(3,000)**	(2,402)
Profit from continuing operations		**50,984**	55,930
Profit from continuing operations attributable to the owners of the Company		**50,984**	55,930
Earnings per share			
Basic earnings per share (pence)	14	**8.43**	10.06
Diluted earnings per share (pence)	14	**8.41**	10.06

The accompanying notes form an integral part of the consolidated financial statements.

Source: BBGI

BBGI outperforms on charges

It is significant that BBGI's charges – at just 0.90% on an annualised basis – are low. Those levied by BBGI's comparators – although not necessarily calculated in the same way – are higher. INPP reported a 1.21% figure, while that for HICL Infrastructure was 1.11%. A key factor for BBGI's comparatively low charge base is its internal management policy, which bears down on excess costs.

Cashflow

For all infrastructure investment companies, cashflow is crucial. BBGI's cashflow statement for 2019 is set out below.

BBGI – 2019 consolidated statement of cashflow

In thousands of Pounds Sterling	Notes	2019	2018
Operating activities			
Profit from continuing operations		**50,984**	55,930
Adjustments for:			
Depreciation expense	6	**21**	24
Net finance cost	8	**2,029**	3,874
Income from investments at fair value through profit or loss	10	**(69,772)**	(70,149)
Loss (gain) on derivative financial instruments – net	7,9	**930**	(3,867)
Foreign currency exchange loss – net	7	**3,250**	3,008
Share-based compensation	20	**561**	485
Income tax expense	12	**3,000**	2,402
		(8,997)	(8,293)
Working capital adjustments:			
Trade and other receivables		**8**	6
Other current assets		**75**	181
Trade and other payables		**(126)**	684
Cash used in operating activities		**(9,040)**	(7,422)
Interest paid		**(721)**	(4,285)
Interest received		**62**	140
Realised loss (gain) on derivative financial instruments – net		**1,164**	(1,520)
Tax settlement of share based compensation	13	**-**	(420)
Taxes paid		**(2,379)**	(1,932)
Net cash flows used in operating activities		**(10,914)**	(15,439)
Investing activities			
Acquisition of/additional investments at fair value through profit or loss	10	**(62,900)**	(90,515)
Distributions received from investments at fair value through profit or loss	10	**63,988**	55,067
Acquisition of property, plant and equipment		**(49)**	(6)
Net cash flows from/(used in) investing activities		**1,039**	(35,454)
Financing activities			
Issuance of share capital through placing (net of issuance cost)	13	**73,915**	126,128
Dividends paid	13	**(40,848)**	(26,463)
Repayment of loans and borrowings	15	**(80,057)**	(257,283)
Proceeds from issuance of loans and borrowings	15	**81,780**	198,623
Debt issue cost		**(934)**	(1,156)
Net cash flows from financing activities		**33,856**	39,849
Net increase (decrease) in cash and cash equivalents		**23,981**	(11,044)
Impact of foreign exchange gain on cash and cash equivalents		**353**	840
Cash and cash equivalents at 1 January		**10,444**	20,648
Cash and cash equivalents at 31 December	11	**34,778**	10,444

The accompanying notes form an integral part of the consolidated financial statements.

Source: BBGI

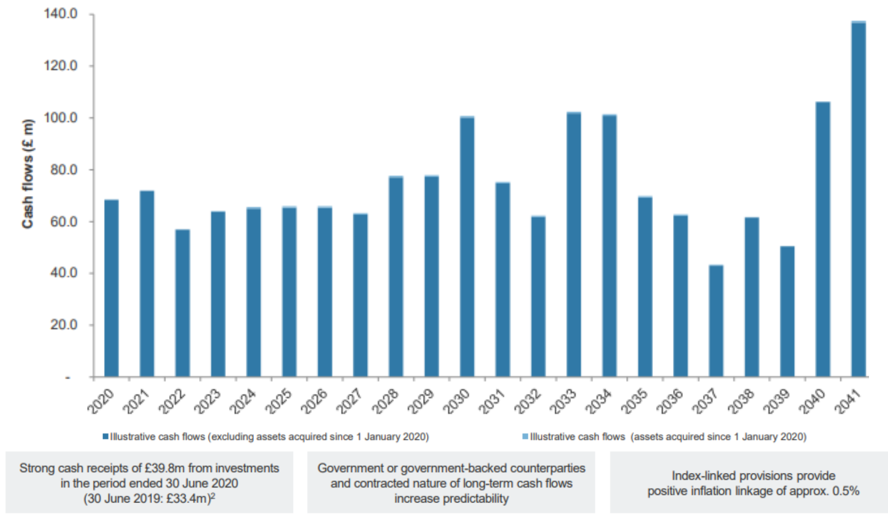
Key long-term cashflow projections

Looking forward, BBGI has published a graph – reproduced below – of its expected cashflow long into the future; indeed, the figures are likely to be boosted by subsequent investment acquisitions, some of which are already in the investment pipeline.

£2.3bn of cash earmarked to accrue by 2041

This graph shows that ca.£2.3bn of revenue is expected to accrue between now and 2041 – a formidable and secure cash inflow, which should benefit investors.

BBGI – illustrative portfolio cashflow



Source: BBGI

Index-linking component

While the graph shows the projected cashflow until 2041, BBGI also has some assured revenues thereafter – up until 2051. Such a profile provides both reassurance to investors and security to the business itself; after all, the contracts are either with governments or other public bodies. Furthermore, the projected cashflows are covered by index-linking contractual terms; the equity internal rate of return (IRR) linkage is ca.0.5%.

Balance sheet

The theoretical 2037 cross-over point

BBGI estimates that – assuming, somewhat hypothetically, no further acquisitions – its existing 49-strong investment portfolio would enter the repayment phase in 2037.

To finance new investments, BBGI periodically raises new equity. In June 2019, gross proceeds of £75m were raised at 153p per share. Just over 49m new shares were issued as a result of the oversubscribed placing.

Oversubscribed £55m issue

A further "tap" issue of £55m (gross) of new equity, earmarked to fund its equity investment in the Signature on the Saint Lawrence Group, has just been undertaken. It was oversubscribed, with 32.5m new shares being issued. The subscription price of 169p represented a discount of just 1.2% on the current share price.

Both these last two issues highlighted BBGI's disciplined use of the very considerable headroom in its balance sheet. BBGI's statement of financial position for the 2019 full year, which underlines its balance sheet strength, is shown below.

BBGI – statement of financial position, 31 December 2019		
£000	2019	2018
Investments		
Property, plant and equipment	61	33
Investments at FV	845,967	780,356
Derivative financial investments	605	1,009
Non-current investments	**846,633**	**781,398**
Trade and other receivables	3,876	811
Other current investments	594	669
Derivative financial investments	**756**	**2,446**
Cash and cash equivalent	34,778	10,444
Current investments	**40,004**	**14,370**
Total investments	**886,637**	**795,768**
Equity		
Share capital	714,280	639,160
Additional paid-in capital	965	837
Translation reserves	-597	-597
Retained earnings	146,984	137,620
Equity attributable to owners	861,632	777,020
Liabilities		
Loans and borrowings	20,318	14,311
Non-current liabilities	20,318	14,311
Loans and borrowings	116	18
Trade payables	353	97
Other payables	2,515	3,239
Tax liabilities	1,703	1,083
Current liabilities	**4,687**	**4,437**
Total liabilities	**25,005**	**18,748**
Total equity and liabilities	**886,637**	**795,768**
Net investment value attributable to owners	**861,632**	**777,020**
Net investment value per ordinary share (p)	**136.72**	**133.97**

Source: BBGI

BBGI's modest cash surplus

At the consolidated level, BBGI's net debt has been low for some years. Indeed, at the end of June 2020, BBGI was running, on an investment basis, a small net cash position of £8.2m. BBGI has no material debt exposure within its portfolio, although it does have a commitment to undertake a modest re-financing as part of its investment in the Northern Territory's Secure Facilities project in Australia.

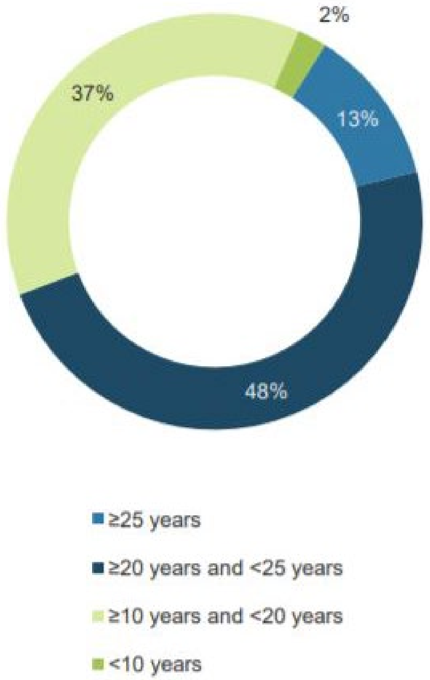
Importantly, in 2017, BBGI negotiated a favourable four-year Revolving Credit Fund (RCF) deal, which began in January 2018 and matures in January 2022. The borrowing rate – at 165bps over LIBOR – looks favourable. Indeed, a renewal process of this RCF is already under way.

Formidable long-term cash profile – 20.7-year average investment life is reassuring

The average investment life of its investment portfolio is 20.7 years. Almost half of this portfolio covers a 20-25-year period, thereby providing solid evidence of the durability of revenues from BBGI's portfolio.

The following pie chart highlights this point.

BBGI – investment life



Notes: weighted average portfolio life of 20.7 years; average portfolio debt maturity of 17.7 years. Source: BBGI

Mix of loans/equity financing

To finance new project investment, BBGI seems likely to undertake further equity issues – following the successful £75m fund raise in 2019 and the equally successful £55m issue more recently – and to deploy loan funds from its RCF or a successor arrangement that is currently being negotiated. The RCF is used mainly as an acquisition funding facility. Importantly, given the considerable financial headroom, substantial funds can be made available at short notice, if necessary.

Modelling future finances of BBGI

Tap issue assumptions

In the Hardman & Co Research cashflow model (see below), we have also assumed a ca.£84m fund raise at 169p in early January 2022. This figure is based on issuing 47.9m new shares, equivalent to 7.5% of BBGI's number of shares currently in issue.

Pipeline uncertainties

Inevitably, in modelling the future finances of BBGI until the end of 2022, various other assumptions have had to be made. Apart from expected returns from existing investments, some allowance has also been made, on a conservative basis, for expected wins – and therefore additional equity investment – of bids in the pipeline, which may, or may not, materialise.

The Hardman & Co model

Set out below is the Hardman & Co Research cashflow model for BBGI, based on the above criteria. For 2021 and 2022, it shows modest growth in NAV of between 2% and 3%, respectively, along with solid dividend growth, underpinned by a robust cash/dividend cover ratio.

BBGI – summary cashflow					
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
Impact of FX gain/loss on cash and cash equivalents	0.8	0.4	0.0	0.0	0.0
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

Fair value (FV) accounting

The issue of FV accounting is key to any analysis of the underlying finance of infrastructure investment companies.

IFRS 9's FV criteria

Under International Financial Reporting Standard (IFRS 9), which came into effect in January 2018, companies are required to assess the real value of their investments, specifically financial instruments, and to make the appropriate adjustments when necessary.

In the case of investment companies, this requirement is particularly important, given that fluctuating valuations can have a major impact on a fund's viability – the saga of the various Woodford funds demonstrates how unrealistic valuations can seriously damage investors' interests.

BBGI's 98% Level 3 assets

For infrastructure investment companies, such as BBGI, the preponderance of Level 3 assets – in BBGI's case, they account for 98% of its asset value – underlines the importance of regular valuations. BBGI defines its Level 3 assets as "unobservable inputs". Level 1 assets, by contrast, have quoted comparators, which should enable broadly accurate valuations to be made. Level 2 assets use "observable inputs", for valuation purposes, although not from quoted sources.

Mark-to-market principle

More specifically, under IFSR 9, investment funds are required to make regular valuations of any financial instruments on a mark-to-market basis. Importantly, any gains and losses are generally required to be passed through the income statement, rather than through the statement of financial position – as would have been the case previously – via a conventional revaluation adjustment.

This accounting methodology can lead to pronounced fluctuations in the income statements of infrastructure investment funds. For BBGI, the adjustments to its income statement for 2018 and 2019 were quite modest and related mainly to foreign currency.

HICL hits

By contrast, HICL Infrastructure was obliged to undertake some very heavy adjustments through its income statement for the 2019/20 financial year. As a result, its profit before tax figure fell to just £50m in 2019; this compares with £286m in 2018.

For HICL Infrastructure, three major valuation adjustments were necessary:

- First, COVID-19 – directly or indirectly – caused a £72.0m reduction in the valuation of HICL Infrastructure's demand-based investments.
- Secondly, HICL Infrastructure's revised macroeconomic assumptions cut a further £58.4m off its previous valuation.
- Thirdly, its stake in Affinity, a regulated water company, saw a further £39.9m downgrade, as the impact of PR19 – the latest five-year price review, which Ofwat based on a much lower Weighted Average Cost of Capital (WACC) assumption than for PR14 – imposed price cuts for water customers. This write-down was partially reversed in HICL's 2020/21 half-year results. Importantly, BBGI is not exposed to regulated assets income.

Sequoia's spectacular £160m FV hit

The most spectacular income statement turnaround in 2019/20 was reported by Sequoia Economic Infrastructure. Its FV asset write-down exceeded £160m – equivalent to 9% of its market value – and this was almost 40% above its investment income for the year.

Dividends

Where to find secure dividends?

The COVID-19 pandemic has seen not only a major correction in global stock markets – predominantly reversed in the US but only partially so in the UK – but it has also created widespread uncertainty about future dividend streams.

UK banks suspended dividends

Earlier in the year, many FTSE 100 companies either cut or suspended their planned dividend payments, judging that, in the light of the spread of COVID-19, it would be inappropriate to make large dividend distributions. Included in this group were leading banks such as HSBC, Barclays and Lloyds.

Shell made its first dividend cut since WW2 – a historic moment

Furthermore, irrespective of COVID-19, several high-profile FTSE 100 companies made substantial cuts to their dividend payments. Most famously, Shell reduced its dividend from $0.47c per share to $0.16c per share – a massive cut of 66%. For Shell, it was the first time that it had cut its dividend since the end of World War II – it was therefore a pivotal moment in its corporate history.

This raft of dividend cuts has had widespread ramifications, not only for income funds but also for millions of retail investors, especially retired people; many have come to rely financially on their dividends from blue-chip investments.

Aside from Shell, BP and all the major UK banks, BT, Centrica and Imperial Brands are among those who have either cut or suspended their dividends.

Of course, some FTSE 100 stocks have prospered in the wake of COVID-19; they include AstraZeneca, at the forefront of the race for an effective COVID-19 vaccine, Unilever and Reckitt Benckiser – the latter pair are leading sanitiser providers.

Conundrum for income seekers after Shell's radical surgery

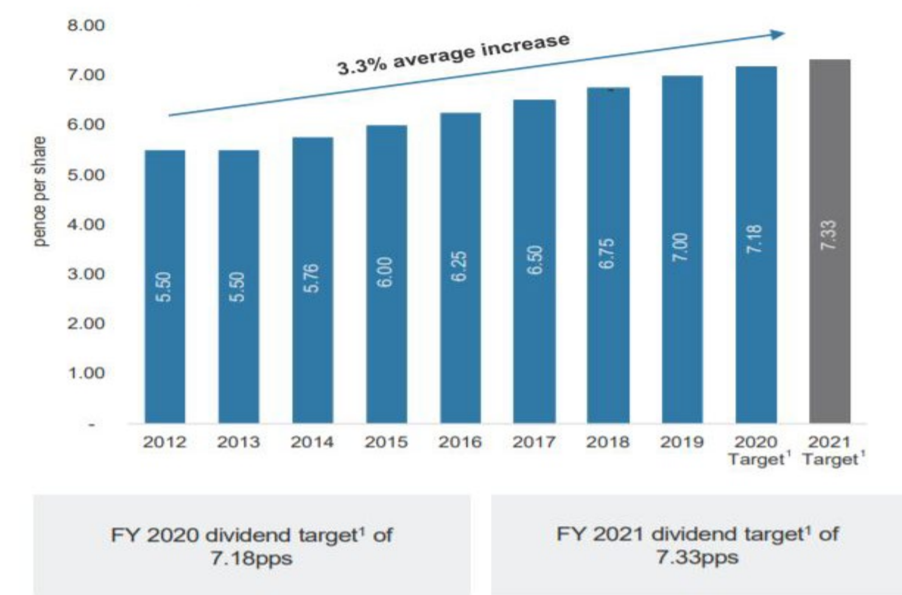
For investors, and especially for millions of retail investors, Shell's 66% dividend cut has been a body blow. In the quest for a decent dividend stream, many such investors will have looked elsewhere and, in some cases, at the thriving – albeit still relatively small – infrastructure investment companies, such as BBGI.

BBGI's dividend payments

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

In BBGI's case, its dividend payments have risen by an average of 3.3% per year 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. The chart below highlights its dividend growth record since 2011.

BBGI – DPS per share, 2012-21E



Source: BBGI

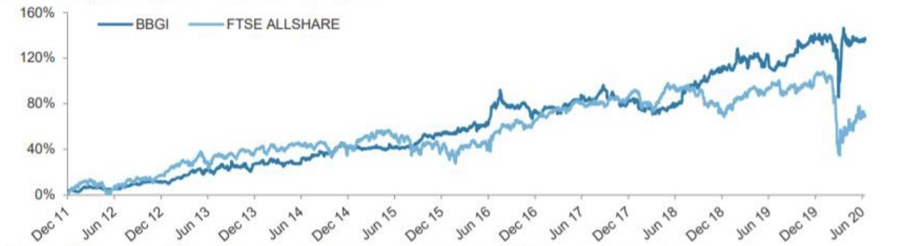
7.33p dividend target for 2021

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

Clearly, rising dividend payments are a key contributor to increased shareholder returns. Indeed, BBGI has had an impressive record on this count since its IPO in 2011, as illustrated by the chart below.

BBGI – total shareholder return



Source: BBGI

In terms of dividend cost, including the impact of the June 2019 and November 2020 fund raises and the new shares issued in consequence, the cost to BBGI is ca.£49m in a full year.

Dividends elsewhere in the sector

Elsewhere within the infrastructure investment company sector, some significant dividend adjustments have recently been announced.

HICL's dividend held at 8.25p

HICL Infrastructure has confirmed that it will now be holding its dividend for 2020/21 at its 2019/20 level, namely 8.25p per share; previously, dividend growth had been proposed. Furthermore, the same dividend payment is targeted for 2021/22. Owing to its holdings of many demand-based investments, COVID-19 has caused revenue budgets to be missed.

GCP's dividend cut to 7p

GCP Infrastructure re-based its dividend from 7.6p, which it has paid for the last seven consecutive years, to 7p from October 2020. Various factors were at play in making this adjustment – mainly the conclusion that making returns from its portfolio of investments was more challenging than was the case some years ago. COVID-19 and exposure to lower long-term power prices have also been negative factors.

The table below shows our prospective dividend forecasts for 2020 or, in some cases, where a 31 March 2021 year-end is applicable, for 2020/21, along with the latest NAV data.

Investment data for infrastructure investment companies

	Share price (p)	Shares in issue (m)	Market cap (£m)	Y/E	Latest NAV (p)	Premium to NAV	Prosp. DPS (p)	Prosp. yield
3i	290	891	2,585	Mar	259.4	11.8%	9.80	3.4%
BBGI	171	665	1,137	Dec	136.4	25.4%	7.18	4.2%
GCP	107	880	941	Sep	104.0	2.9%	7.00	6.5%
Greencoat UK Wind	130	1,825	2,373	Dec	120.7	7.7%	7.10	5.5%
HICL	168	1,940	3,259	Mar	154.0	9.1%	8.25	4.9%
INPP	170	1,620	2,754	Dec	149.2	13.9%	7.36	4.3%
Sequoia	106	1,656	1,755	Mar	99.0	7.1%	6.25	5.9%
TRIG	126	1,740	2,192	Dec	113.0	11.5%	6.76	5.4%
			16,997					

Share prices as at 11/12/2020. Source: Company accounts, Hardman & Co Research

Ca.5% sector yield

The yields vary somewhat across the eight infrastructure investment companies, reflecting, in part, the changed dividend outlook for funds such as GCP Infrastructure and HICL Infrastructure. The average sector yield is currently ca.5.0%.

Comparators

No direct comparator to BBGI

Despite the number of quoted infrastructure investment companies, including those valued at below the £1bn level, there are no direct comparators to BBGI. Many quoted infrastructure investment companies have overlapping features; equally, many have very clear differences. Both sector exposure and the countries in which their operations are based vary quite considerably.

Eight infrastructure investment funds worth ca.£17bn

Nevertheless, it is valid to assess those infrastructure investment companies that do have many similar features to BBGI. In total, the eight infrastructure investment companies under review have a market value of £17.0bn.

Comparisons between these stocks will continue to be made, not only in respect of NAV movements, but also with regard to their capacity for future dividend payments. However, the use of direct "read-over" comparisons is precluded by the many obvious differences across the eight infrastructure investment companies.

Challenging times

Income statements of most have seen major changes in reported income

The last six months have been turbulent times for stock markets generally, as well as for the infrastructure investment companies under review. While their share prices and premiums over NAV have held up, their income statements have seen major changes in reported income, related partly to FV accounting issues.

The two renewable power generators, Greencoat UK Wind and TRIG, had very differing experiences in terms of their income statements. The former saw 1H'20 EPS advance from 1.34p per share to 2.14p per share. The latter experienced a very sharp EPS decline, due primarily to FV adjustments – relating to long-term power prices – through its income statement. Indeed, for 1H'20, TRIG's EPS fell from 9.3p in 2019 to just 1.0p.

Major HICL and Sequoia mark-to-market adjustments

Both HICL Infrastructure and Sequoia Economic Infrastructure have seen very large mark-to-market adjustments. HICL Infrastructure has 19% of its investments subject to much lower COVID-19-driven demand levels, especially on the railways: it is an investor in the struggling HS1 line, as well as in two large toll road schemes. Sequoia Economic Infrastructure had to undertake a "kitchen-sink" valuation exercise. Both GCP Infrastructure, which is struggling to maintain its returns, and INPP suffered from exposure to COVID-19, especially Diabolo, INPP's rail-related business.

Shifting NAVs over the year

Over the last year, NAVs per share have fluctuated significantly – and, in some cases, have declined. The table below shows the latest NAV published by each infrastructure investment company, along with its NAV figure for one year previously. Performances over that time period have certainly been mixed.

One-year NAV movements of infrastructure investment companies				
	Latest NAV per share (p)	Date	NAV per share (p) – 1 year before	Change
3i Infrastructure	259.40	Sep'20	243.6	+6.5%
BBGI	136.4	Jun'20	136.2	+0.1%
GCP Infrastructure	104.0	Sep'20	111.7	-6.9%
Greencoat UK Wind	120.7	Sep'20	122.9	-1.8%
HICL Infrastructure	154.0	Sep'20	157.8	-2.4%
INPP	149.2	Jun'20	150.3	-0.7%
Sequoia Economic Infrastructure	99.0	Oct'20	104.1	-4.9%
TRIG	113.0	Jun'20	115.0	-1.7%

Source: Company accounts, Hardman & Co Research

These varying NAV records over the past 18 months highlight several factors, including:

- Adjustments to previously applied discount rates.
- The adverse impact of COVID-19, especially with regard to demand-based investments – a segment that is not part of BBGI's portfolio.
- The recognition that it is becoming more challenging to grow NAV as successfully as previously, at least for some infrastructure investment companies, as GCP Infrastructure generally and BBGI – with specific respect to social and transport PPPs – have pointed out.
- The introduction of IFRS 9 in requiring the application of FV accounting principles, through the income statement, to financial instruments. The impact on BBGI has been marginal but, for Sequoia Economic Infrastructure, very tangible.
- The outstanding performance of 3i Infrastructure in bucking the trend of flat or declining NAVs, mainly through the sale of its 93% stake in Wireless Infrastructure Group (WIG), a thriving wireless infrastructure business that delivered a formidable 27% IRR.

Profiles of seven comparator companies

Set out below are short profiles of the seven infrastructure investment companies that bear comparison – on several counts – with BBGI.

3i Infrastructure

Investment sectors: 3i Infrastructure's investments are wide-ranging, but its focus lies on mid-market economic infrastructure investments – within a typical equity range of £100m to £300m. 3i Infrastructure periodically recycles its portfolio assets. Earlier this year, it sold its very profitable 93% stake in WIG and its UK Projects investments for a combined total of ca.£580m.

Fund aims: "To provide shareholders with a total return of 8% to 10% per annum to be achieved over the medium term, with a progressive annual dividend per share".

Portfolio: 3i Infrastructure owns a portfolio comprising 20 investments. Based on asset value, 40% of the total is accounted for by utilities, while transport and communications (effectively the Norwegian Tampnet fibre infrastructure business) represent 22% and 13%, respectively. The UK-based waste business, Infinis, is the largest single investment, at 16%.

In terms of jurisdiction, the assets are split quite widely, with 21% covering the Netherlands, 19% France and 16% the UK. Lower weightings are applicable to Norway and Belgium, with 13% and 11%, respectively.

Latest results: 3i Infrastructure published its half-year results for 2020/21 in November 2020. The figures were generally reassuring, even though TCR, an aviation-related business, was adversely affected by COVID-19. Low oil prices also depressed returns. Importantly, there was confirmation of a £355m net cash position, some of which will be used to finance new investment and some of which will enable higher dividends to be paid. The 9.8p per share dividend target for 2020/21 represents an impressive 6.5% of year-on-year growth. 3i Infrastructure's latest income statement is shown in the table below.

3i Infrastructure – half-year income statement, 2020/21

£m	to 30/09/2020	to 30/09/2019
Net gains on investment	**73**	**85**
Investment income	43	55
Fees payable on investment activities	0	(1)
Interest receivable	6	0
Investment return	122	139
Movement in FV of derivative instruments	-24	-15
Management, advisory and performance fees	-12	-15
Operating expenses	-1	-1
Finance cost	-1	-1
Profit before tax	84	107
Income taxes	0	0
Profit after tax and profit for the year	84	107
Total comprehensive income for the year	84	107
EPS (basic and diluted, p)	9.4	13.3

Source: 3i Infrastructure

Share price performance since IPO: Since its IPO in 2007, 3i Infrastructure has delivered a 12.7% total shareholder return over the intervening 13 years.

3i Infrastructure – data box

Ticker/website	**3IN/www.3i-infrastructure.com**
Key sectors	Utilities, transportation
Portfolio	20 infrastructure assets
Latest NAV/NAV per share (09/20)	£2,312m/259.4p
Market cap/share price	£2,585m/290p
Premium/discount to NAV	+11.8%
Prospective DPS/yield	9.80p/3.4%
Return record	Total shareholder return of 12.7% p.a. since IPO in 2007

Source: 3i Infrastructure, Hardman and Co. Research

GCP Infrastructure

Investment sectors: GCP Infrastructure, along with GCP Asset Backed, is one of two quoted GCP/Gravis closed-ended investment funds, while GCP Student Loans is a FTSE-250 REITs fund. All three are quoted, with their latest market capitalisations being £941m, £391m and £642m, respectively. GCP Infrastructure seeks "to create a diversified portfolio of debt and similar assets secured against UK infrastructure projects". It focuses on debt investments in the renewable generation sector and in PPP schemes.

Fund aims: GCP Infrastructure aims to "provide shareholders with regular, sustained, long-term dividends and to preserve the capital value of its investment assets over the long term".

Portfolio: GCP Infrastructure holds 49 Investments, with an average life of 14 years – all are sited in the UK. Most notably, it has heavy exposure to the renewable energy sector, with onshore wind investment at 11 separate sites. These wind farms represent 21% of its portfolio. Solar generation is also a core business – it accounts for 20% – and there is some exposure to the biomass market, which has faced certain raw material challenges of late due to COVID-19. Outside the energy sector, GCP Infrastructure has 25% of its investment value tied up within PPPs. Supported living projects account for a further 15.%.

Latest results: In its 1H results for the period ending in March 2020, GCP Infrastructure confirmed that it had been adversely impacted by lower long-term power prices – down by over 15% since September 2019. Cashflows are under pressure, and GCP Infrastructure is finding it increasingly hard to grow its business, as PF1 and PF2 (Private Finance Initiatives) are no longer the government's favoured procurement vehicles. The progressive phasing-out of renewable subsidies is also a negative factor for GCP Infrastructure. Hence, having paid an annual dividend of 7.6p for seven consecutive years, it has now cut this figure to 7p from October 2020 onwards. GCP Infrastructure also confirmed an NAV figure of 104p as at September 2020. The 1H'20 results are set out below.

GCP Infrastructure – half-year income statement, 2020

£000	to 31/03/2020	to 31/03/2019
Income		
Net income/gains on FV financial assets	25,387	31,365
Other income	8	9,859
Total income	25,395	41,224
Expenses		
Investment advisory fees	-4,306	-4,389
Operating expenses	-1,366	-1,248
Total expenses	-5,672	-5,637
Total operating profit before finance costs	19,723	35,587
Finance costs	-2,513	-2,035
Total profit and income for the period	17,210	33,552
EPS (basic and diluted, p)	1.96	3.83

Source: GCP Infrastructure

Share price performance since IPO: GCP Infrastructure has delivered an annual total shareholder return of 7.7%, equivalent to a total return of almost 106% over the decade since its IPO in 2010.

GCP Infrastructure – data box

Ticker/website	GCP/www.graviscapital.com
Key sectors	Renewable energy, PPP, social housing
Portfolio	11 wind plants and many solar units
Latest NAV/NAV per share (09/20)	£915m/104.0p
Market cap/share price	£941m/107p
Premium/discount to NAV	+2.9%
Prospective DPS/yield	7.0p/6.5%
Return record	7.7% annual return since IPO in 2010

Source: GCP Infrastructure, Hardman & Co Research

Greencoat UK Wind

Investment sectors: Greencoat UK Wind has a narrow focus – the UK wind generation market, where it has secured a strong position. Like other renewable generation businesses, it is reliant upon the continuation of substantial government subsidies, through the Renewable Obligation Certificate (ROCs) scheme or similar pricing regimes.

Fund aims: "To invest in UK wind-farms", and "to provide investors with an annual dividend that increases in line with RPI inflation whilst preserving the capital value of its investment portfolio in the long term".

Portfolio: Currently, Greencoat UK Wind runs a renewable generation portfolio with a capacity of 1,090 MW; there are 37 wind plants in operation. With all its wind generation plants being either onshore or in an offshore renewable energy zone, Greencoat UK Wind is effectively wholly UK-based. This portfolio will be further expanded once the acquisition of a 49% stake – from RWE – in the 219 MW Humber Gateway offshore wind farm is completed.

Latest results: While Greencoat UK Wind's latest 1H'20 results benefited from higher generated output, it confirmed, in its December 2019 year-end results, a £74m cut in its portfolio valuation, much of which was caused by lower long-term power price assumptions. Consequently, there was 5p per share reduction in its NAV, which has recovered slightly subsequently. Recently, Greencoat UK Wind raised £400m (gross) at 131p per share – almost identical to its current trading price – to finance its continuing growth.

Greencoat UK Wind – half-year income statement, 2020

£000	to 30/06/2020	to 30/06/2019
Return on investments	52,889	40,077
Other income	534	451
Total income and gains	53,423	40,528
Operating expenses	-10,710	-9,379
Investment acquisition costs	-796	-2,577
Operating profit	41,917	28,572
Finance expense	-9,448	-11,914
Profit for the period before tax	32,469	16,658
Tax	0	0
Profit for the period after tax	32,469	16,658
Profit to equity holders	32,469	16,658
EPS (basic and diluted, p)	2.14	1.34

Source: Greencoat UK Wind

Share price performance since IPO: Following its IPO in 2013, Greencoat UK Wind has prospered on the back of strong output, substantial public subsidies and solid dividends. Its total shareholder return, as at September 2020, had risen by 110% in the intervening seven years.

Greencoat UK Wind – data box

Ticker/website	UKW/www.greencoat-ukwind.com
Key sectors	Wind-power generation
Portfolio	1,090 MW of wind plant
Latest NAV/NAV per share (09/20)	£2,202m/120.7p
Market cap/share price	£2,373m/130p
Premium/discount to NAV	+7.7%
Prospective DPS/yield	7.10p/5.5%
Return record	110% total shareholder return since IPO in 2013

Source: Greencoat UK Wind, Hardman & Co Research

HICL Infrastructure

Investment sectors: HICL Infrastructure has a very extensive range of investments across many sectors. Significantly, almost three-quarters of its investments are in PPPs, with 74% of assets being in the UK. It has also been attracted by demand-based investments.

Fund aims: "To deliver long-term, stable income from a well-diversified portfolio of infrastructure investments positioned at the lower end of the risk spectrum".

Portfolio: HICL Infrastructure has the largest and widest range of the seven infrastructure investment companies under review, with no less than 117 separate investments. This portfolio has been built up over a sustained period at a cost of £2.8bn, of which £2.4bn has been equity-financed. Importantly, in terms of risk, PPP schemes now account for 72% of these assets, while the demand-based component is 19%.

HICL Infrastructure's favoured sectors are health and transport, which both account for ca.30% of its total portfolio value. Education and accommodation also feature prominently, with their shares being 14% and 13% respectively. Importantly, it also has significant demand-based investments, including HS1, which has seen demand plummet in recent months, the Northwest Parkway in Colorado, US, and the A63 motorway in SW France.

HICL Infrastructure's portfolio is heavily slanted to the UK, which accounts for 74% of its investments, with 19% of the remainder in mainland EU – its North American exposure, unlike that of BBGI, is modest.

Latest results: HICL Infrastructure has just published its half-year results for 2020/21. Despite the challenging operating environment, the income and earnings lines showed growth of ca.25%. Nevertheless, with a cash/dividend cover for the 2020/21 half-year of just 0.83x, HICL Infrastructure has decided to hold its dividend at 8.25p – rather than to increase it, as intended previously. Furthermore, HICL Infrastructure has confirmed that the 8.25p dividend payment figure has also been assumed for 2021/22.

HICL Infrastructure – full-year income statement, 2019/20

£m	To 30/9/2020	30/9/2019/
Total income (IFRS basis)	105.5	80.6
Fund expenses	-1.5	-1.3
Profit before tax	104.0	79.3
Earnings	104.0	79.3
Earnings per share (basic and diluted, p)	5.5	4.4

Source: HICL Infrastructure

Share price performance since IPO: Since its IPO in 2006, HICL Infrastructure's annual shareholder return has averaged 9%, as calculated at the end of September 2020 – despite a small reduction in 2019/20. Given this record, it was not surprising that it comfortably completed a fund raise in July, when £120m of new equity was issued at 164p – a discount of 2.4% on the current share price. The offer attracted "very strong support from both existing and new investors".

HICL Infrastructure – data box

Ticker/website	HICL/www.hicl.com
Key sectors	Health, transport
Portfolio	117 assets
Latest NAV/NAV per share (09/2020)	£2,995m/154.0p
Market cap/share price	£3,259m/168p
Premium/discount to NAV	+9.1%
Dividend/yield	8.25p/4.9%
Return record	9% annual total shareholder return since IPO in 2006

Source: HICL Infrastructure, Hardman and Co Research

INTERNATIONAL PUBLIC PARTNERSHIPS

INPP

Investment sectors: INPP's origins lie with Babcock & Brown, an Australian Investment Bank. INPP is very long-term-orientated, with an investment life span of some 34 years. Its focus has been very much on the energy sector, and especially on gas transportation and electricity transmission.

Fund aims: "We aim to provide our investors with long-term, inflation-linked returns by growing our dividend and creating the potential for capital appreciation".

Portfolio: INPP's key investments are in the utilities sector, notably in its offshore electricity transmission operations and in its Cadent gas distribution business; these two components account for ca.40% of its portfolio. However, its biggest single investment is in the 25km Tideway super sewer, alongside the River Thames. Much of the remainder of the portfolio is made up by transport and education investments, including 267 schools. These two sectors account for ca.20% each.

In terms of location, the UK is INPP's key market, with almost 75% of its portfolio being sited here. Of the remainder, Australia and Belgium (the latter with its Diabolo rail link contract to service Brussels airport) account for 9% and 8%, respectively.

Latest results: While asset availability, at 99.6%, similar to that of BBGI, is undoubtedly impressive, INPP confirmed, in its 1H'20 income statement, that it had been adversely impacted by some COVID-19 issues with the Tideway super sewer project, which have caused delays, and, not surprisingly, by a major fall-off in demand on its Diabolo rail link to Brussels airport. The latter's revenue is very dependent on rail passenger numbers, which have fallen sharply of late. There were also several FV adjustments that distorted the underlying numbers.

INPP – half-year income statement, 2020

£000	to 30/06/2020	to 30/06/2019
Interest income	39,775	36,533
Dividend income	17,439	22,654
Net change in investment at FV via P&L	-1,418	40,427
Total investment income	55,796	99,614
Other operating income/expenses	-4,251	745
Total income	51,545	100,359
Management costs	-13,027	-11,607
Administration costs	-852	-945
Transaction costs	-150	-2,449
Directors' fees	-209	-198
Total expenses	-14,238	-15,199
Profit before finance costs and tax	37,307	85,160
Finance costs	-1,888	-1,480
Profit before tax	35,419	83,680
Tax credit	171	37
Profit for the period	35,590	83,717
EPS (basic and diluted, p)	2.21	5.64

Source: INPP

Share price performance since IPO: Since its IPO in 2006, shareholders have benefited from an 8.9% annual return.

INPP – data box	
Ticker/website	**INPP**/www.internationalpublicpartnerships.com
Key sectors	Energy, transport and education
Portfolio	Electricity, gas and water assets
Latest NAV/NAV per share (06/20)	£2,409m/149.2p
Market cap/share price	£2,754m/170p
Premium/discount to NAV	+13.9%
Prospective DPS/yield	7.36p/4.3%
Return record	8.9% annual return since IPO in 2006

Source: INPP, Hardman and Co Research

Sequoia Economic Infrastructure

Investment sectors: Sequoia Economic Infrastructure is a specialist investor in economic infrastructure debt. It runs a portfolio of debt – 93% of which is private – and bond investments, with generally shorter timeframes than those of other quoted infrastructure investment companies.

Fund aims: "To provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investment".

Portfolio: Currently, Sequoia Economic Infrastructure has over 70 investments, averaging £17.0m each. In terms of asset allocation, transport is the largest component, at 21%, with technology, media and telecoms (TMT) at 17%, and power at 15%. Accommodation and renewables make up a further 11% and 9% of the portfolio, respectively.

Sequoia Economic Infrastructure has diversified across 12 mature jurisdictions. Slightly under half of its assets are in North America, with a further 26% being located in Europe. The UK component represents 19%, with just one project – the Bannister healthcare accommodation scheme, costing £41.6m – being in the top 10 of its investments.

Latest results: Sequoia Economic Infrastructure's half-year results for 2020/21 showed some improvement – EPS at 6.60p represented a 60% increase on the corresponding figure for 2019/20 – compared with its full-year results for 2019/20, which were heavily distorted by the application of FV accounting to both its non-derivative and derivative financial assets. The latter set of results saw NAV plunge by 6.5% compared with 2018/19. A heavy £160m asset write-down was authorised, compared with a relatively modest £23m in 2018/19. Three investments have caused particular concern, two of which are oil- and gas-related – battered by what Sequoia Economic Infrastructure described as "a brutal fall" in the price of oil. Not surprisingly, perhaps, Sequoia Economic Infrastructure's board has undertaken a "comprehensive portfolio and Balance Sheet review".

Sequoia Economic Infrastructure – half-year income statement, 2020/21		
£	to 30/09/2020	to 30/09/2019
Revenue		
Net gains on non-derivative financial assets at FV	82,993,765	64,525,295
Net gains/losses on derivative financial assets at FV	16,586,260	-48,152,440
Investment income	18,031,334	42,035,685
Net foreign exchange gains/losses	524,882	-1,361,595
Total revenue	118,136,241	57,046,945
Expenses		
Investment adviser fees	5,583,041	4,849,982
Investment manager fees	172,804	178,366
Directors' fees and expenses	123,327	113,723
Other professional fees	1,117,583	926,465
Other expenses	106,176	243,799
Total operating expenses	7,102,931	6,312,335
Loan finance costs	1,802,530	2,825,180
Total expenses	8,905,461	9,137,515
Loss/profit and comprehensive income for the half-year	109,230,780	47,909,430
EPS (basic and diluted, p)	6.60	4.10

Source: Sequoia Economic Infrastructure

Share price performance since IPO: Shareholder returns have risen by an estimated 6% per year since its launch in 2015.

Sequoia Economic Infrastructure – data box	
Ticker/website	**SEQI**/www.seqifund.com
Key sectors	Economic infrastructure debt
Portfolio	Transport, TMT, power
Latest NAV/NAV per share (10/20)	£1,640m/99.0p
Market cap/share price	£1,656m/106p
Premium/discount to NAV	+7.1%
Prospective DPS/yield	6.25p/5.9%
Return record	ca.6% return per year since launch in 2015

Source: Sequoia Economic Infrastructure, Hardman and Co Research

TRIG

Investment sectors: TRIG's focus lies in the renewable generation market, mainly with respect to onshore wind plants, where generous subsidies remain payable. TRIG also operates some solar plants and is expected to become more involved in investing in offshore wind generation, which undoubtedly has considerable potential.

Fund aims: "To generate sustainable returns from a diversified portfolio of renewables infrastructure".

Portfolio: TRIG now has a total renewable generation capacity of 1,502 MW, spread among 73 assets. On a country-by-country basis, over half of its capacity is located in England, Wales or Scotland. Around 17% is in Germany, with a further 13% in France. Following its expansion into Scandinavia, it has acquired the 213 MW Jadraas plant in Sweden – by some way, its largest investment.

Latest results: TRIG's half-year returns for 2020 were solid, with the Scandinavian wind division being the highlight – output was 28% above budget over the six-month period. The last three months have been less productive. In common with other relatively mature renewable generation companies, TRIG's NAV has been adversely impacted by lower long-term power prices. In its June 2020 1H results, the power price issue caused a £123.1m (net) FV downward adjustment. Although this was partly offset by some value enhancements, this major write-down caused profits and earnings to plunge. Furthermore, TRIG's NAV at June 2020 was 113.0p per share, compared with 115.0p in December 2019. Its October 2020 NAV was identical. TRIG has also announced its intention to issue up to 160m new shares, which – at 125p per share – would raise ca.£200m (gross) of proceeds.

TRIG – half-year income statement, 2020

£000	to 30/06/2020	to 30/06/2019
Net gains on investment	9,743	99,655
Investment income from investments	37,091	29,346
Total operating income	46,834	129,011
Fund expenses	-924	-709
Operating profit for the period	45,910	128,302
Finance and other income/(expense)	-29,647	-6,147-
Profit before tax	16,263	122,155
Profits attributable to equity owners	16,263	122,155
Ordinary EPS (p)	1.0	9.3

Source: TRIG

Share price performance since IPO: Over the years, TRIG has performed well, with total shareholder returns – as at June 2020 – of 9.4% since its IPO in 2013.

TRIG – data box

Ticker/website	TRIG/ *www.trig-ltd.com*
Key sectors	Renewable energy, especially wind
Portfolio	1,502 MW
Latest NAV/NAV per share (06/20)	£1,966m/113.0p
Market cap/share price	£2,192m/126p
Premium/discount to NAV	+11.5%
Prospective DPS/yield	6.76p/5.4%
Return record	Total shareholder returns have grown 9.4% p.a. since IPO in 2013

Source: TRIG, Hardman and Co Research

Management

Small – and successful - team

BBGI has a small, but highly successful, management team, as the 10.6% annual increase in total shareholder returns since the IPO in 2011 indicates. Expertise in the infrastructure investment company sector – and specifically a real grasp of its complex financial and legal issues – is self-evident among the senior management.

The key individuals at BBGI are:

Duncan Ball

Duncan has been a co-CEO of BBGI since its IPO in 2011, and is responsible for the fund's overall investment strategy. Over a 30-year period, he has worked in investment banking and in the infrastructure sector, as well being involved in several advisory businesses. He holds directorships in some key investments of BBGI.

Frank Schramm

Frank has been a co-CEO of BBGI since its IPO in 2011, and is responsible not only for its overall strategy but also for its implementation. For almost 25 years, he has been employed in either investment banking or in the infrastructure sector, along with maintaining involvement in several advisory businesses. He holds directorships in some key investments of BBGI.

Sarah Whitney

Sarah recently became Chairman of BBGI, having been a former corporate finance partner at PricewaterhouseCoopers, as well as being an investment banker. In the intervening period of some 15 years, she has been providing consultancy services to a range of national/local government bodies, investors and real estate companies. She is a Fellow of the Institute of Chartered Accountants in England and Wales.

Michael Denny

Michael is the CFO of BBGI, having joined the company shortly after its IPO in 2011. He has built up 19 years of experience in corporate finance, with a specific focus on infrastructure and real estate. As the CFO, he has prime responsibility for all corporate finance issues, including company reporting, UK listing requirements, tax, treasury management and regulatory compliance.

The management board at BBGI comprises Mr Ball, Mr Schramm and Mr Denny. To provide oversight to its operations, in terms of both management and investment policy, a supervisory board has been established.

The Chairman of the supervisory board is Ms Whitney. Two other individuals sit on this board, namely:

Howard Myles

As a stockbroker and corporate financier, Howard has spent many decades in the City, mainly at SG Warburg and UBS Warburg. He was a partner at Ernst & Young between 2001 and 2007. He is now Senior Independent Director at BBGI.

Jutta af Rosenborg

Jutta has spent many years in the auditing sector, specifically at Deloitte between 1978 and 1992. She remains a Non-Executive Director for several companies, including Standard Life Aberdeen. She is now Chairman of the audit committee at BBGI.

ESG

ESG is a BBGI priority

BBGI's management team accords a high priority to meeting its Environmental, Social and Governance (ESG) responsibilities. In particular, it focuses on the social purpose and outcomes of its various activities; this applies most directly to its investment in the health and education sectors.

Integrating ESG is the mantra

BBGI's commitment to "pursue its business endeavours in a manner that integrates ESG factors" is set out clearly in its 2019 Annual Report, where it lists five key initiatives:

- To embed ESG in the investment review and decision-making process.
- To ensure that ESG objectives are integrated into management policies, conduct and practices, which inform such decisions.
- To seek appropriate disclosures on ESG entities in which the investments are made.
- To promote the adoption of ESG principles among co-shareholders.
- To monitor – and to report on – ESG initiatives.

Unbridled commitments

By any standards, these are wide-ranging pledges, which demonstrates that ESG issues really do matter to BBGI – and to its senior management team, which is charged with making the key investment decisions.

BBGI is UNPRI signatory

Furthermore, BBGI is a signatory to the United Nations' Principles for Responsible Investment (UN PRI); recently, it received a UN PRI rating of "A". BBGI is also a signatory to the United Nations' Global Compact.

Conclusion

Since its IPO in 2011, BBGI has performed with distinction. Over that period, its NAV has grown appreciably, along with its dividend payouts. The fact that its share price is currently trading at a 25.4% premium to NAV underlines its strengths and its relative low risk.

Unlike some of its comparators, it has avoided valuation downgrades associated with the COVID-19 pandemic, due mainly to its lack of demand-based investments.

The challenge going forward will be to continue this growth profile and to build upon the strong foundations that it has established during its nine years as a quoted company.

Appendix I

Portfolio summary

BBGI's investments, as at 30 June 2020, consisted of interests in 49 high-quality, availability-based infrastructure investments in the transport, healthcare, justice, education and other sectors. On page 8, 22 projects, all of which had a total investment of over £100m, were identified.

BBGI's portfolio carries no exposure to demand-based or regulatory-risk investments, and benefits from well-diversified sector exposure. Importantly, BBGI has a 50% allocation to lower-risk, availability-based roads and bridges.

Located in the UK, Continental Europe, North America and Australia, all investment companies in the BBGI portfolio are in stable, well-developed and highly-rated investment-grade countries.

Portfolio breakdown

BBGI – transportation infrastructure projects

No	Investment[1]	Country	Legal holding
1	A1/A6 Motorway	Netherlands	37.1%
2	Canada Line	Canada	26.7%
3	E18 Motorway	Norway	100%
4	Golden Ears Bridge	Canada	100%
5	Highway 104	Canada	50%
6	Kicking Horse Canyon	Canada	50%
7	M1 Westlink	UK	100%
8	M80 Motorway	UK	50%
9	Mersey Gateway Bridge	UK	37.5%
10	N18 Motorway	Netherlands	52%
11	North Commuter Parkway	Canada	50%
12	North East Stoney Trail	Canada	100%
13	Northwest Anthony Henday Drive	Canada	50%
14	Ohio River Bridges	US	66.7%
15	South East Stoney Trail	Canada	40%
16	William R. Bennett Bridge	Canada	80%

BBGI – social infrastructure projects

No	Investment	Country	Legal holding
17	Avon & Somerset Police HQ	UK	100%
18	Barking Dagenham & Havering (LIFT)	UK	60%
19	Bedford Schools	UK	100%
20	Belfast Metropolitan College	UK	100%
21	Burg Prison	Germany	90%
22	Clackmannanshire Schools	UK	100%
23	Cologne Schools	Germany	50%
24	Coventry Schools	UK	100%
25	East Down Colleges	UK	100%
26	Frankfurt Schools	Germany	50%
27	Fürst Wrede Military Base	Germany	50%
28	Gloucester Royal Hospital	UK	50%
29	Kelowna and Vernon Hospital	Canada	50%[2]
30	Kent Schools	UK	50%
31	Lagan College	UK	100%
32	Lisburn College	UK	100%
33	Liverpool & Sefton Clinics (LIFT)	UK	60%
34	McGill University Health Centre	Canada	40%
35	Mersey Care Hospital	UK	79.6%
36	North London Estates Partnership (LIFT)	UK	60%
37	North West Regional College	UK	100%
38	Northern Territory Secure Facilities	Australia	100%
39	Restigouche Hospital Centre	Canada	80%
40	Rodenkirchen Schools	Germany	50%
41	Royal Women's Hospital	Australia	100%
42	Scottish Borders Schools	UK	100%
43	Stanton Territorial Hospital	Canada	100%
44	Stoke & Staffs Rescue Service	UK	85%
45	Tor Bank School	UK	100%
46	Unna Administrative Centre	Germany	90%
47	Victoria Prisons	Australia	100%
48	Westland Town Hall	Netherlands	100%
49	Women's College Hospital	Canada	100%

Source: BBGI

1. In alphabetical order

2. In August 2020, BBGI announced the acquisition of the remaining 50% interest in Kelowna and Vernon Hospital

Appendix II

Reproduced below are the key data on BBGI's five leading projects, along with an image of each.

Golden Ears Bridge, Vancouver, Canada.

Description: A 1km, six-lane road spanning Fraser River, including 3.5km of structures and 13km of mainline roadway.

Revenue base: Availability payments.

Status: Operational.

Equity holding: 100%.

Total investment volume: C$1.1bn.

Financial close/operational: 03/2006 and 06/2009.

Concession period: 32 years (post construction), ending in 2041.

Ohio River Bridges, Kentucky/Ohio border, US.

Description: A 760m cable stay bridge, a 500m long twin vehicular tunnel and 2.25km of an associated six-lane interstate highway, with more than 21 bridges and multiple roundabout-style interchanges.

Revenue base: Availability payments.

Status: Operational.

Equity holding: 66.7% (increased from 33.3% in May 2019).

Total investment volume: US$1.175bn.

Financial close/operational: 03/2013 and 12/2016.

Concession period: 35 years (post construction), ending in 2051.

McGill University Health Centre, Montreal, Canada.

Description: The new Glenn campus includes two hospitals, a cancer centre and a research institute. More than 12,000 people are employed on the site.

Revenue base: Availability payments.

Status: Operational.

Equity holding: 40%.

Total investment volume: C$2.0bn.

Financial close/operational: 07/2010 and 10/2014.

Concession period: 34 years, ending in 2044.

Northern Territory Secure Facilities, Nr. Darwin, Australia.

Description: Three separate centres, including a 1,000-bed correction unit, a 30-bed secure mental health facility and a 48-bed supported accommodation building.

Revenue base: Availability payments.

Status: Operational.

Equity holding: 100% (increased from 50% in July 2015).

Total investment volume: A$620m.

Financial close/operational: 10/2011 and 11/2014.

Concession period: 30 years (post construction), ending in 2044.

A1/A6 Motorway Link in the Netherlands

Description: Reconstruction and widening of the ca.40km Schiphol Airport/Almere road link.

Revenue base: Availability payments.

Status: Operational.

Equity holding: 37.14%.

Total investment volume: €727m.

Financial close/operational: 02/2013 and 07/2017.

Concession period: 25 years (post construction), ending in 2042.

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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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