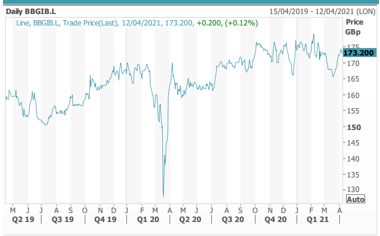
14 April 2021

## Infrastructure




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **BBGI** |
| Price (p) | **173** |
| 12m High (p) | 179 |
| 12m Low (p) | 157 |
| Shares (m) | 665 |
| Mkt Cap (£m) | 1,150 |
| EV (£m) | 1,130 |
| Country of listing | UK |
| Market | FTSE-250 member of LSE |

## Description

BBGI Global Infrastructure (BBGI) has a 50-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% |

## Diary

| | |
|---|---|
| 30 Apr | AGM |
| End-Jun | Half-year-end |
| End-Dec | Full-year-end |

## Analyst

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nh@hardmanandco.com

# BBGI GLOBAL INFRASTRUCTURE

## NAV and dividend growth continue

**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 50 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 11% p.a. It has consistently traded at a premium to NAV, and its shares are now trading at more than 25% 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 is targeting a 7.33p per share dividend for 2021, is currently yielding 4.2%. Investors should also note that BBGI has recently integrated key ESG principles into its investment cycle.

## Financial summary and valuation

| Year-end Dec (£m) | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| Distributions from investments | 64.0 | 72.8 | 79.4 | 85.7 | 91.7 |
| Operating costs | -11.0 | -18.7 | -19.8 | -21.0 | -22.7 |
| Net operating cashflows | 53.0 | 54.1 | 59.5 | 64.7 | 70.2 |
| Equity investments | -62.9 | -59.2 | -100.0 | -110.0 | -110.0 |
| Drawdown proceeds | 81.8 | 41.0 | 90.0 | 100.0 | 100.0 |
| Net proceeds from fund raise | 73.9 | 54.2 | 0 | 84.0 | 0 |
| Dividends paid | -40.8 | -42.6 | -46.5 | -51.0 | -53.6 |
| Dividend per share (p) | 7.00 | 7.18 | 7.33 | 7.48 | 7.65 |
| Dividend yield | 4.0% | 4.2% | 4.2% | 4.3% | 4.4% |
| NAV per share (p) | 136.2 | 137.8 | 140.8 | 143.7 | 147.0 |

*Source: Hardman & Co Research*

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# Executive summary

- While some other quoted Infrastructure Investment Companies (IICs) have been adversely affected 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 50 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% p.a., on average. For 2020, the dividend was 7.18p per share, an increase of 2.6% on 2019: the targets for 2021 and 2022 are 7.33p and 7.48p per share, respectively, increases of 2.6% and 2.0%.
- Since its IPO, BBGI has delivered an annual NAV return of 7.7% and an annual shareholder return of 11% – both are impressive figures in today's challenging financial environment. With a December 2020 NAV of 137.8p per share, BBGI is currently trading at 25.5% above its NAV. 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 169p on 13 February 2020 to 128p by 19 March 2020 – 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 2020, it had fully recovered to 170p: currently, it trades at a similar price. Over the five-year period ending 31 December 2020, the correlation with the FTSE-All Share Index has been just 27.3%, whilst the beta is 0.24.
- 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 central to boosting shareholder returns. Accretive acquisitions and further reductions in charges – currently the lowest in the sector – also remain priorities.
- BBGI is particularly focused on ESG issues and has adopted various ESG initiatives. In particular, it has "integrated ESG into its investment cycle". Moreover, for the first time, BBGI has published a separate ESG Report for 2020: *https://www.bb-gi.com/media/1984/bbgi-esg-report-21_final-300321-v2_lores.pdf*
- 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, although inflation linkage of 0.45% helps mitigate the adverse impact of rising interest rates. Also, with self-imposed 25% caps on both construction and demand-related investments, these risks are reduced further.
- Many IICs and Renewable Energy Infrastructure Funds (REIFs) are currently struggling to grow their NAVs. The adverse impact of the COVID-19 crisis, particularly on demand-based investments, of which BBGI has none, along with lower long-term power prices, have both depressed some sector NAVs, although not that of BBGI.

# Background

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.

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

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.

Buoyant 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, seven quoted IICs have attained a market capitalisation of £13.0bn: virtually all of their equity has been raised on UK stock markets.

## BBGI

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

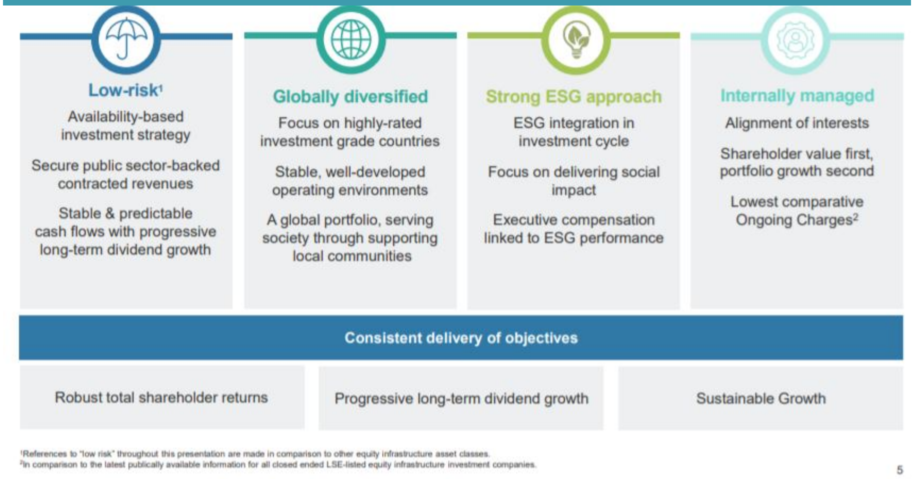
Impressive performance since 2011 IPO

Its IPO 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.

Low-risk, globally diversified, ESG-active and internally managed

In terms of strategy, BBGI has set out its four key pillars: i) being low-risk; ii) being globally diversified; iii) being ESG-active; and iv) being internally managed. Its investment policy is built around these four pillars, as highlighted in the table below.

## Investment proposition



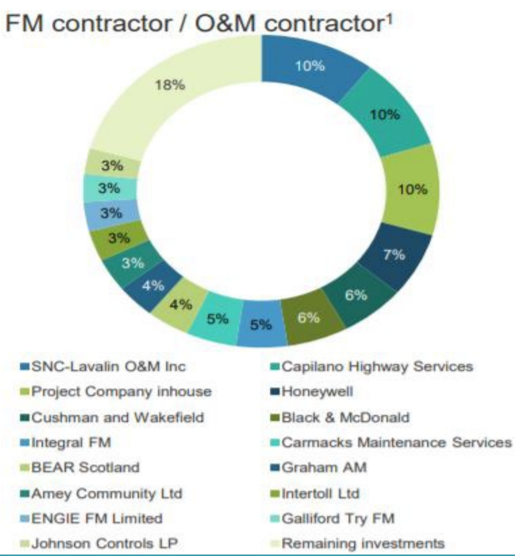

*Source: BBGI*

**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 fact, although BBGI had no investment in Carillon itself, it did pick up an interest in Stanton Hospital from its liquidators, contingent on the replacement of Carillon as the operator.

The pie chart below highlights BBGI's counterparty liabilities. 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

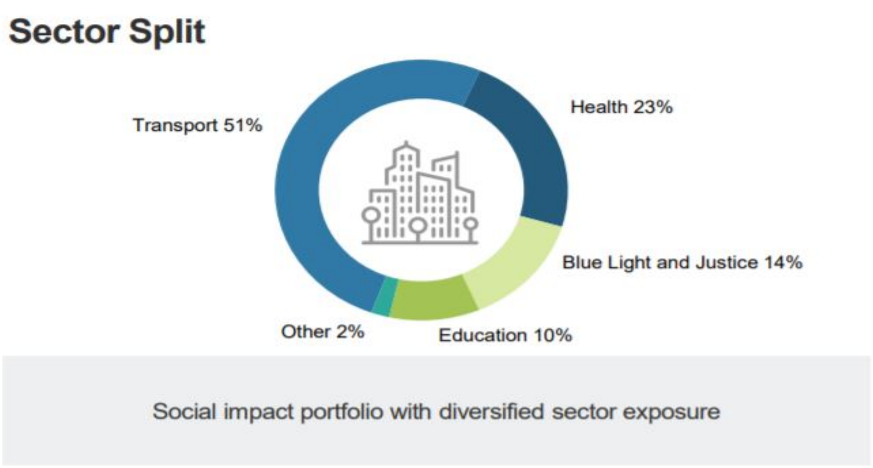
50 investments

BBGI is quite specific in terms of its investments, of which there are currently 50. All are required to meet the criteria that its strategy lays out.

51% 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 blue light/justice and education account for 14% and 10%, respectively. Significantly, there is no utility, energy or demand-based investment, unlike most other IICs, as the chart below shows.

**BBGI – sector split**

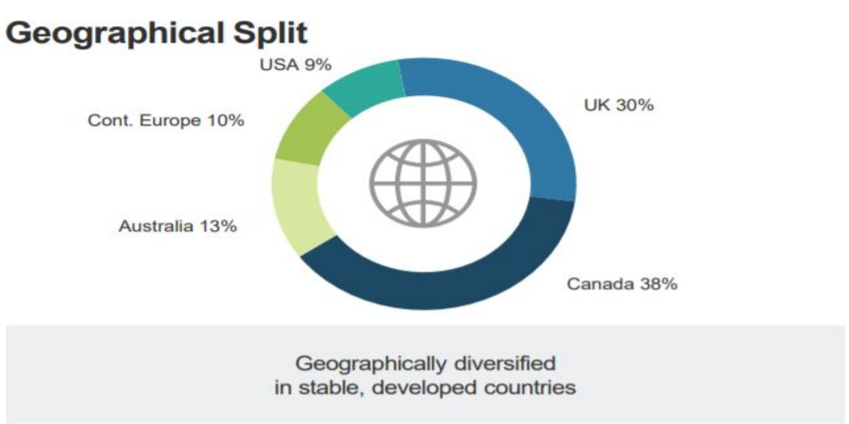



*1. This includes one rail asset in Canada; Source: BBGI*

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 38% and 30%, respectively. BBGI's remaining investments are split among Australia, Continental Europe and the US, as the chart below highlights.

**BBGI – geographical split**




*Source: BBGI*

Debt/equity

Most of the projects in which BBGI invests have a debt/equity ratio of ca.90%, although the precise gearing figure varies from project to project.

Golden Ears and the Ohio River bridge are key BBGI investments

In terms of its core investments, our 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 ca.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%.

In total, we estimate that BBGI's top five investments account for ca.37% of the company's total returns, while its leading 22 investments provide ca.80% of total returns.

Strong pipeline

Importantly, BBGI has a strong pipeline of possible investments, despite the struggling global economy. Three potential projects, involving heavy investment, have been cited. They are:

- A ca.£750m EU road project, for which BBGI has been shortlisted.
- A £950m North American transport project, for which BBGI has also been shortlisted.
- Five SNC-Lavalin investment projects in Canada, with a total equity value of ca.£145m.

Although BBGI is unlikely to participate in all three 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 assumed.

Secondary tuck-in investment

BBGI also invests at a secondary level, where either an opportunity to buy an equity stake in a new project materialises, 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 own published 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 IICs, 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 expert and by the auditor, KPMG. At December 2020, BBGI used a weighted average discount rate of 6.77%, compared with 7.07% at December 2019: its investments were valued within a range of 6.20% to 8.75%. BBGI's average rate is similar to those of most of its comparators, despite the fact that it has a comparatively lower risk profile. Nonetheless, 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. Indeed, if inflation rises, there is a positive impact on BBGI's returns.

- **Poor investment decisions:** Any investment company is beholden to the quality of its investments and to the managers making investment decisions. Given the consistent rise in its NAV since its IPO in 2011, BBGI can argue – with genuine conviction – that its overall decision-making has been 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. BBGI currently has less than 1% of its investments in the construction phase.

- **Corporation tax:** Although BBGI pays corporate taxes across several jurisdictions, it will be affected by tax rises, albeit to a modest extent. The UK Government's proposal to raise Corporation Tax from 19% to 25% in 2023 has been estimated by BBGI to reduce its NAV by £8.9m, equivalent to a 1% reduction in NAV. Of course, other governments in countries where BBGI invests could make similar moves on the tax front, which would have an adverse impact on BBGI's returns.

- COVID-19 (see below)

COVID-19's financial mayhem

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

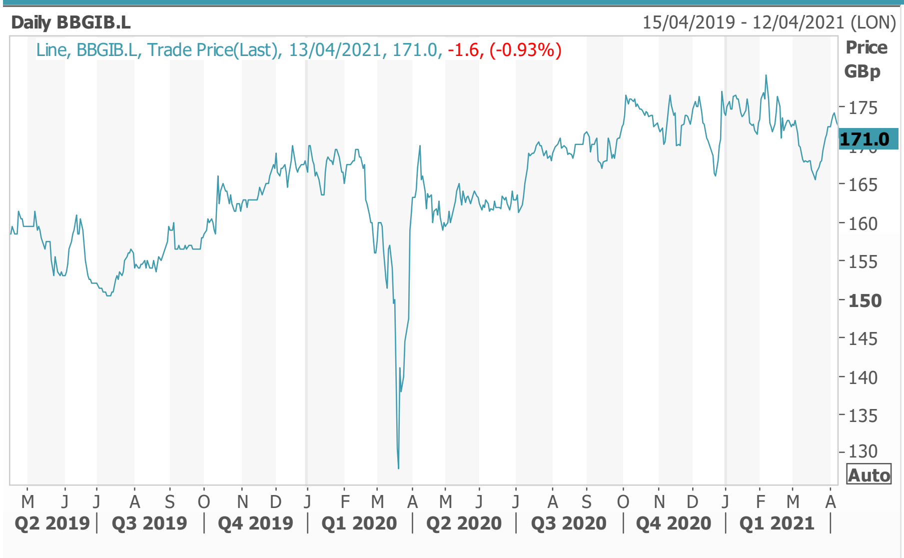
COVID-19 has directly affected other IICs, with INPP incurring some delays in building the Thames Tideway super sewer and markedly lower traffic volumes on the Diabolo Rail line in Belgium, which has required a cash injection from INPP. COVID-19 has also been a major factor in weakening long-term power prices, which have reduced the NAVs of the two leading REIFs, Greencoat UK Wind and TRIG.

BBGI's share price bounced back after March 2020

It was no surprise, therefore, that BBGI's share price bounced back from its March 2020 plunge, when investors panicked about the impact of COVID-19, which saw heavy index-selling.

The graph below highlights BBGI's performance since April 2019, which produced the now familiar share price, market-led, chasm in March 2020, from which BBGI's share price has rallied.

BBGI – share price, April 2019 to April 2021




*Source: Hardman & Co Research*

# Full-year 2020 results

**In-line 2020 numbers**

On 25 March 2021, BBGI reported its full-year results for 2020. There were no surprises in the figures, a summary of which is set out below. The operating income for 2020 arose almost exclusively from returns from BBGI's investments as adjusted by fair value (FV) accounting principles.

**Robust balance sheet**

Set out in the table below is BBGI's statement of its financial position for 2020, which reflects the £59.2m investment that BBGI undertook during the year. Furthermore, it highlights BBGI's lack of net debt.

| BBGI – statement of financial position at end-December 2020 | | |
|---|---|---|
| £000 | at 31/12/2020 | at 31/12/2019 |
| **Assets** | | |
| Property and equipment | 58 | 61 |
| Investments at FV through profit or loss | 895,674 | 845,967 |
| Deferred tax assets | 225 | |
| Derivative financial assets | 12 | 605 |
| **Non-current assets** | **895,969** | **846,633** |
| | | |
| Trade and other receivables | 1,631 | 3,876 |
| Other current assets | 2,164 | 594 |
| Derivative financial assets | 247 | 756 |
| Cash and cash equivalents | 20,532 | 34,778 |
| **Current assets** | 24,574 | 40,004 |
| | | |
| **Total assets** | **920,543** | **886,637** |
| | | |
| **Equity** | | |
| Share capital | 770,942 | 714,280 |
| Additional paid-in capital | 1,517 | 965 |
| Translation reserves | -597 | -597 |
| Retained earnings | 143,978 | 146,984 |
| **Equity attributable to the owners of the company** | 915,840 | 861,632 |
| | | |
| **Liabilities** | | |
| Loans and borrowings | | 20,318 |
| Derivative financial liabilities | 218 | - |
| | | |
| **Non-current liabilities** | **218** | **20,318** |
| | | |
| Loans and borrowings | 177 | 116 |
| Trade payables | 73 | 353 |
| Accruals/other payables | 2,643 | 2,515 |
| Derivative financial liabilities | 25 | |
| Tax liabilities | 1,567 | 1,703 |
| **Current liabilities** | **4,485** | **4,687** |
| | | |
| **Total liabilities** | **4,703** | **25,005** |
| | | |
| **Total equity and liabilities** | **920,543** | **886,637** |
| | | |
| **NAV attributable to the owners of the company** | **915,840** | **861,632** |
| **NAV per ordinary share (p)** | **137.8** | **136.7** |

*Source: BBGI*

# Valuation

Pursuit of growth – 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 purely to pursue growth.

Investment to rise in 2021

A key factor in the ongoing valuation is BBGI's investment profile. In 2019, new investment was £62.9m, whereas for 2020 the figure fell slightly to £59.2m. For 2021, investment is likely to increase again, although much will depend on whether BBGI wins any of the major contracts for which it has been shortlisted – and the extent of any subsequent investment.

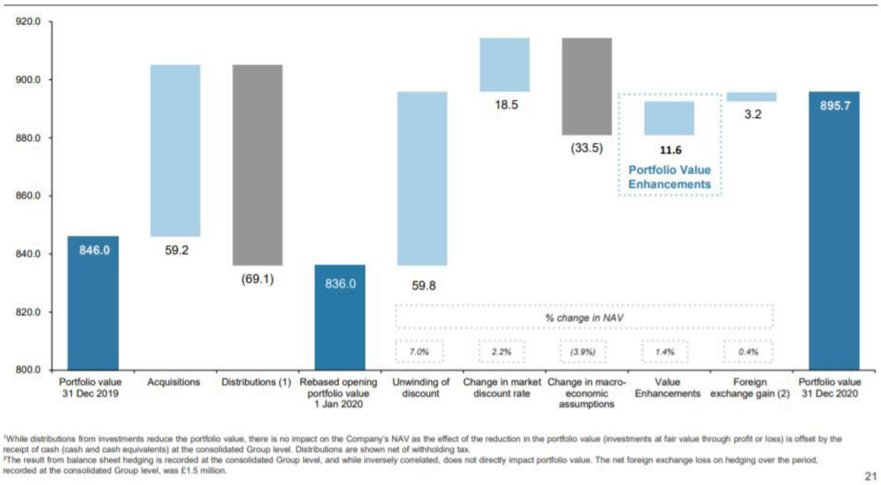
**Discount rate the major factor in determining NAV**

Irrespective of investment levels, there are many other elements that determine the NAV for IICs, such as BBGI, with the chosen discount rate being the major factor.

**£11.6m value enhancement in 2020**

In its 2020 full-year results, BBGI confirmed that its NAV had risen by £57.4m in 2020 – £11.6m of which was due to value enhancement – compared with 2019. The chart below highlights the portfolio value movements that took place between 1 January 2020 and 31 December 2020.

**BBGI – portfolio value movement in 2020 (£m)**

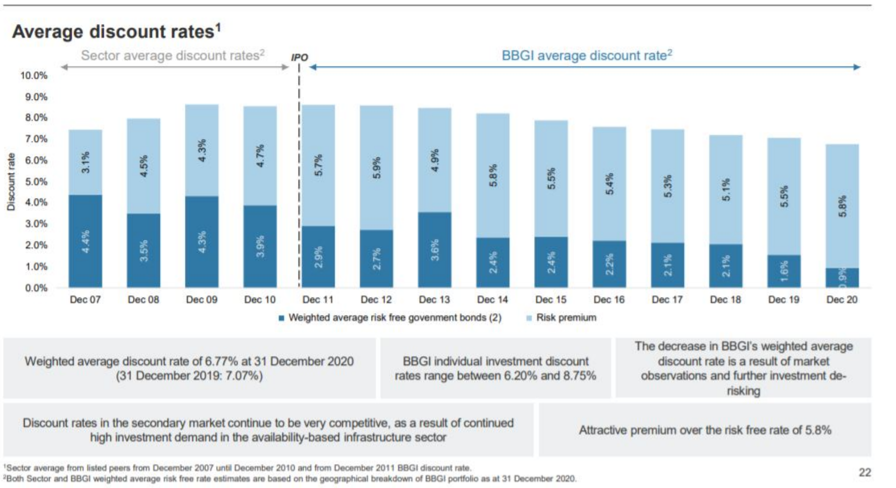



*Source: BBGI*

**5.8% premium over the risk-free rate currently**

Aside from showing BBGI's discount rates since its IPO in 2011, the graph below illustrates how the premium over risk-free yields, currently 5.8%, has widened in recent years.

## BBGI – discount rates, 2007 to 2020




*Source: BBGI*

**Key observations**

Three issues merit particular comment:

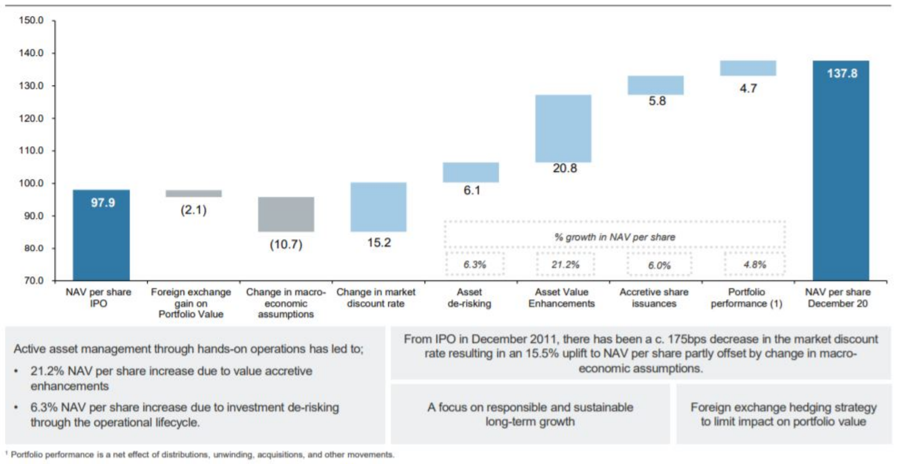
- The weighted average discount of 6.77% compares with 7.07% at December 2019 – the former figure is based on an asset range of between 6.20% and 8.75%. Given that the weighted average discount rate is less than 1% above the lower figure, it suggests that few investments are discounted near the outlying – and considerably higher – 8.75% figure; we believe that some acute hospital investment falls into the latter category.
- Secondary market discount rates have become very competitive, especially in the availability-based infrastructure. For various reasons, including quantitative easing, risk-free government bond yields are at historically low levels, despite the massive increases in government borrowing and gilt issuance to finance it in recent years.
- The high-risk premium – over the risk-free rate – endures. For BBGI, the widening gap suggests there is a strong case to assess whether the current discount rate is too high – commensurate with its low-risk operating profile.

**Asset value enhancement and lower discount rates have driven NAV rise over the decade**

Since its IPO in 2011, BBGI has increased its NAV from 97.9p per share to 137.8p per share, due in part to asset value enhancement and to falling market discount rates.

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 40.7% since IPO




**Asset enhancement equivalent to 20.8p per share**

In terms of asset enhancement over a nine-year period, there has been a 20.2% increase in NAV, equivalent to 20.8p per share.

In its recognition of the pivotal valuation role of its chosen discount rate – currently 6.77% – BBGI has published a sensitivity analysis of its exposure to major changes in this rate, highlighting the negative implications of an increased discount rate.

**1% either way discount rate sensitivity**

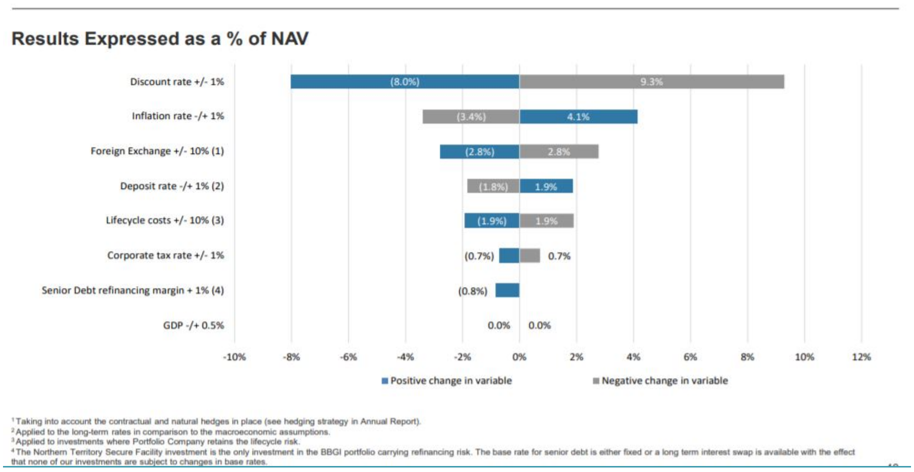
The analysis shows that a 1% rise in the discount rate to 7.77% would cut NAV by ca.£85m, equivalent to more than 9%. On the upside, a 1% cut in the discount rate would yield a benefit of ca.£73m, equivalent to an 8% rise in NAV. Clearly, these are large swings.

**1% either way on inflation also 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 £38m valuation benefit. However, if inflation were to fall by 1% – against current assumptions – the hit to BBGI's valuation would be ca.£31m.

BBGI's sensitivity to changed discount rates and inflation trends and other factors, including 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 £2.3bn 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 closely tracks BBGI's outcomes

In assessing the value of this projected cashflow until 2051, our DCF model, based on a discount rate of 6.77% – BBGI's revised discount rate assumption – shows a very similar valuation to that announced by BBGI at its full-year results in 2020.

# 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 both prudent and beneficial of late

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 due to COVID-19.

BBGI outperforms markedly on charges

On the cost front, BBGI has also performed well: its charges – at just 0.86% on an annualised basis – are low. Those levied by BBGI's comparators – although not necessarily calculated in the same way – are higher. INPP recently reported a 1.21% figure, while 3i Infrastructure and HICL Infrastructure's latest cost figures are 1.16% and 1.08%, respectively. A key factor for BBGI's comparatively low charge base is its internal management policy, which bears down on excess costs.

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 wall of cash set 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. In addition, the projected cashflows are covered by index-linking contractual terms; the equity internal rate of return (IRR) linkage is ca.0.5%.

**20.4 years average investment life**

More generally, the average investment life of its investment portfolio is 20.4 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.

## Balance sheet

**The theoretical 2037 cross-over point**

BBGI estimates that – assuming, somewhat hypothetically, no further acquisitions – its existing 50-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 following 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, which operates the Samuel De Champlain Bridge corridor in Montreal, was undertaken in November 2020. It, too, was oversubscribed, with 32.5m new shares being issued. The subscription price of 169p represented is almost identical to BBGI's current share price.

**BBGI's modest cash surplus**

Importantly, 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 Australian investment in the Northern Territory's Secure Facilities project in 2025. Indeed, at its 31 December 2020 year-end, BBGI reported a £20.5m net cash balance.

**Favourable RCF deal**

Furthermore, 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.

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 last November – 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. Given the considerable financial headroom, substantial funds can be made available at short notice, if necessary.

## Modelling future finances of BBGI

"Tap" issue assumptions

As part of this financing strategy – and for the purposes of the Hardman & Co Research cashflow model (see below) – we have assumed a ca.£84m fund raise at 168p – a ca.3% discount to the current price – in early January 2022. This figure is based on issuing 49.9m 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 2023, 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 likely successes – and therefore additional equity investment – of bids in the existing pipeline; they 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. Between 2020 and 2023, 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) | 2019 | 2020 | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|
| Cash and cash equivalent, 1 January | 10.4 | 34.8 | 20.5 | 3.5 | 1.2 |
| Distributions from investments | 64.0 | 72.8 | 79.4 | 85.7 | 91.7 |
| Operating costs | -11.0 | -18.7 | -19.8 | -21.0 | -22.7 |
| Net operating cashflows | 53.0 | 54.1 | 59.5 | 64.7 | 70.2 |
| Equity investments | -62.9 | -59.2 | -100.0 | -110.0 | -110 |
| Proceeds from drawdowns | 81.8 | 41.0 | 90.0 | 100.0 | 100 |
| Net proceeds of fund raise | 73.9 | 54.2 | 0.0 | 84.0 | 0 |
| Dividends paid | -40.8 | -42.6 | -46.5 | -51.0 | -53.6 |
| Repayment of loans and borrowings | -81.0 | -62.0 | -20.0 | -90.0 | -80 |
| Impact of FX gain/loss on cash and cash equivalents | 0.4 | 0.2 | 0.0 | 0.0 | 0 |
| Cash and cash equivalent, 31 December | 34.8 | 20.5 | 3.5 | 1.2 | -3.1 |
| Cash dividend cover (x) | 1.30 | 1.27 | 1.28 | 1.27 | 1.31 |
| Dividend per share (p) | 7.00 | 7.18 | 7.33 | 7.48 | 7.65 |
| NAV per share (p) | 136.2 | 137.8 | 140.8 | 143.7 | 147.0 |
| Number of shares (m) | 605.1 | 665.0 | 665.0 | 714.9 | 715.0 |

*Source: Hardman & Co Research*

# Dividends

Where to find secure dividends?

The COVID-19 pandemic has seen not only a major correction in global stock markets – now totally 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 last year, many FTSE 100 companies either cut or suspended their planned dividend payments, judging that, in light of the spread of COVID-19, it would have been 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.

**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 – IICs, such as BBGI.

**Pushing the ESG envelope**

Discerning investors will have noted, too, the far stronger emphasis that BBGI now accords to ESG standards – certainly compared with many other quoted companies – and its determination to meet them.

## 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% 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. The chart below highlights its dividend growth record since 2011.

BBGI – DPS per share profile


*Source: BBGI*

**BBGI's comparatively healthy dividend cover**

BBGI's 2020 full-year dividend was 7.18p, an increase on the 2019 payment of 2.6%: the cash dividend cover is 1.27x, compared with 1.30x in 2019. Other IICs, including HICL, have far lower dividend covers – a factor that has caused dividend increases to be deferred.

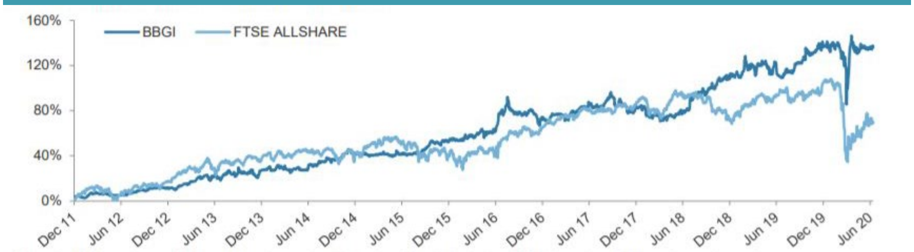
**7.33p dividend target for 2021**

For 2021, BBGI has published a target dividend figure of 7.33p, representing a 2.1% uplift on the 2020 figure and, for 2022, its target is 7.48p per share.

**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 a seriously impressive record on this count since its IPO in 2011, as illustrated by the chart below.

BBGI – total shareholder return since IPO




*Source: BBGI*

## Dividends elsewhere in the sector

Elsewhere within the IIC sector, some significant dividend adjustments have recently been announced.

HICL's 2021/22 dividend to be held – again – 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.

The yields vary somewhat across the six IICs (omitting Cordiant Digital) and the two REIFs, reflecting, in part, the changed dividend outlook for funds such as HICL Infrastructure and GCP Infrastructure. The average sector yield is currently just under 5.0%.

Sub-5% sector yield

More specifically, the table below shows our prospective dividend forecasts for 2021, along with the latest NAV. Also included, for comparative purposes, are the two most valuable REIFs, Greencoat UK Wind and TRIG.

**Sector dividend forecasts for 2021**

| | Share price (p) | Shares in issue (m) | Market cap (£m) | Y/E | NAV (p per share) | Prosp. DPS (p) |
|---|---|---|---|---|---|---|
| 3i | 295 | 891 | 2,630 | Mar | 259.4 | 9.80 |
| BBGI | 173 | 665 | 1,150 | Dec | 137.8 | 7.33 |
| GCP | 103 | 880 | 906 | Sep | 102.7 | 7.00 |
| Greencoat UK Wind | 128 | 1,875 | 2,528 | Dec | 122.2 | 7.18 |
| HICL | 169 | 1,937 | 3,274 | Mar | 154.0 | 8.25 |
| INPP | 170 | 1,621 | 2,756 | Dec | 147.1 | 7.55 |
| Sequoia | 106 | 1,763 | 1,869 | Mar | 101.6 | 6.25 |
| TRIG | 121 | 1,903 | 2,303 | Dec | 115.3 | 6.76 |
| Total | | | 17,416 | | | |

*Source: Hardman & Co Research*

# Comparators

**No direct comparator to BBGI**

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

**Read-across limitations**

Nevertheless, it is valid to assess those IICs that do have many similar features to BBGI. 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 sector.

**Turbulent times**

The past 18 months have been turbulent times for stock markets generally, as well as for the IICs under review. While their share prices and premiums over NAV have held up reasonably well, given the impact of COVID-19, their income statements have seen major changes in reported income, related partly to FV accounting issues.

**A tale of two – GCG vs. BBGI – NAV records**

Indeed, over the past year, NAVs per share have fluctuated significantly – and, in some cases, have declined. In the latter case, GCP reported a fall in NAV of 6.3% in 2020 alone. By contrast, BBGI has never reported an NAV regression since its IPO in 2011.

**Variable NAV performances during 2020**

The table below shows the latest NAV published by each IIC, excepting the newcomer, Cordiant Digital, and by the two REIFs under review, along with the NAV figure for one year previously. Performances over that time period have certainly been mixed. Although BBGI confirmed a growth in its NAV per share, the latest IIC to report its full-year figures, INPP, announced that its NAV per share had fallen during 2020 from 150.6p to 147.1p.

**One-year NAV movements of infrastructure investment companies**

| | Latest NAV per share (p) | Date | NAV per share (p) – 1 year before | Change |
|---|---|---|---|---|
| 3i Infrastructure | 259.4 | Sep'20 | 243.6 | +6.5% |
| BBGI | 137.8 | Dec'20 | 136.2 | +1.2% |
| GCP Infrastructure | 102.7 | Dec'20 | 109.6 | -6.3% |
| Greencoat UK Wind | 122.2 | Dec'20 | 121.4 | +0.7% |
| HICL Infrastructure | 154.0 | Sep'20 | 157.8 | -2.4% |
| INPP | 147.1 | Dec'20 | 150.6 | -2.3% |
| Sequoia Economic Infrastructure | 101.6 | Dec'20 | 106.3 | -4.5% |
| TRIG | 115.3 | Dec'20 | 115.0 | +0.3% |

*Source: Company accounts, Hardman & Co Research*

# Management

Small and successful team

BBGI has a small, but highly successful, management team, as the 11% annual increase in total shareholder returns since the IPO in 2011 indicates. Expertise in the IIC 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 jointly responsible for the fund's overall investment strategy as well as its implementation. 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 jointly responsible for the fund's overall investment strategy as well as 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 is 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.

Also, despite the challenges posed by COVID-19 during 2020, BGGI took several important steps in respect of enhancing its ESG record.

ESG is now an investment factor – and the inaugural BBGI ESG Report

Two major ESG developments for BBGI in 2020 warrant specific mention:

- BBGI has further refined its formal policy "to integrate ESG into its investment cycle".
- BBGI has published its first-ever separate ESG Report, available on: https://www.bb-gi.com/media/1984/bbgi-esg-report-21_final-300321-v2_lores.pdf

Busy year on the ESG front

Furthermore, during 2020, BBGI:

BBGI is UN PRI signatory

- as a signatory to the United Nations' Principles for Responsible Investment (UN PRI); received a UN PRI rating of "A" for both its Strategic and Governance, and for its Infrastructure modules: BBGI is also a signatory to the United Nations' Global Compact.
- furthered its compliance of its Sustainable Development Goals (SDG) policy;
- researched in detail the implications of climate change and how to respond appropriately;
- drew up a policy covering diversity and inclusion within BBGI;
- established a separate BBGI committee focusing on ESG issues; and
- accorded a priority to addressing mental health issues, some of which were related to COVID-19 concerns, within its own workforce.

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

# 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 25.5% 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 virtual absence 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 near decade as a quoted company.

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