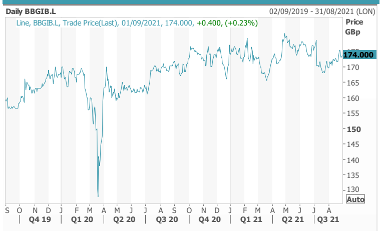
7 September 2021

Infrastructure



Source: Refinitiv

Market data

EPIC/TKR	**BBGI**
Price (p)	**173**
12m High (p)	183
12m Low (p)	163
Shares (m)	711
Mkt Cap (£m)	1,230
EV (£m)	1,224
Country of listing	UK
Market	FTSE 250 member of LSE

Description

BBGI Global Infrastructure (BBGI) has a 54-strong investment portfolio, mainly in the transport, health, blue light and justice and education sectors. The UK and Canada are its key markets.

Company information

Joint CEO	Duncan Ball
Joint CEO	Frank Schramm
Chair	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

Dec	Full year-end

Analyst

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BBGI GLOBAL INFRASTRUCTURE

Boring is beautiful – and dividend growth continues

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 social 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 highly reliable.

- **Background:** Central to BBGI's business are its 54 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-backed, 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 10.8% per year. It has consistently traded at a premium to NAV; the current premium is an impressive 25.5%. The shares are yielding 4.2%, based on the prospective 2021 dividend.
- **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 (IICs), with their secure dividend profiles. The prospective sector yield is now just below 5%. Following its recent 2021 interim results, BBGI confirmed its dividend targets - 7.33p per share for 2021, 7.48p per share for 2022 and 7.63p per share for 2023.

Financial summary and valuation

Year-end Dec (£m)	2019	2020	2021E	2022E	2023
Distributions from investments	64.0	72.8	79.4	85.7	92.6
Operating costs	-10.9	-18.7	-19.4	-20.4	-21.8
Net operating cashflows	53.1	54.1	59.9	65.3	70.7
Equity investments	-62.9	-59.2	-80.0	-95.0	-110.0
Drawdown proceeds	81.8	41.0	75.0	88.0	100.0
Net proceeds from fund raise	73.9	54.5	74.3	88.0	0
Dividends paid	-40.8	-42.6	--49.2	-53.2	-57.8
Dividend per share (p)	7.00	7.18	7.33	7.48	7.63
Dividend yield	4.0%	4.2%	4.2%	4.3%	4.4%
NAV per share (p)	136.2	137.8	139.2	140.8	142.6

Source: Hardman & Co Research

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Note: *Share prices as at close on 26 August 2021 unless otherwise specified*

Executive summary

- While other quoted IICs have been adversely impacted – in some way – by the COVID-19 pandemic, BBGI's exposure – owing to its lack of demand-based investments – has been minimal. Its revenues – distributions received from its 54 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 – in the last 18 months, many other FTSE 250 stocks have cut their dividend payments. Since its IPO in December 2011, BBGI's dividend has risen by 3.3% per year, on average. For 2021, it is planning to pay a dividend of 7.33p per share, an increase of 2.1% on 2020. The targets for 2022 and 2023 are 7.48p and 7.63p per share, respectively, equivalent to a 2% increase per year.

- Since its IPO, BBGI has delivered an annual NAV increase of 7.5% and an annual shareholder return of 10.8% – both are impressive figures in today's challenging financial environment. With a June 2021 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, the low-risk nature of its investments and its low ongoing charge of 0.86%.

- Resilience has been the hallmark of BBGI's recent share price performance. Having plunged from 169.5p 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 and almost all stocks were universally affected, BBGI's share price has rallied strongly. By 7 April 2020, it had fully recovered to 170p; it currently trades slightly above this figure.

- 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.

- BBGI has integrated ESG into its business model and strategy. It considers itself an Article 8 product under the Sustainable Finance Disclosure Regulation (SFDR) where it promotes social characteristic combined with good governance practices. For the first time, in 2020, BBGI published a separate ESG Report for that year: https://www.bb-gi.com/media/2023/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, as well as to falling inflation. With self-imposed 25% caps on both construction and demand-related investments, these risks are further mitigated.

Sector 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 stock market sector

Consequently, 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, excluding the two leading REIFs, Greencoat UK Wind and TRIG, which are also reviewed in this document, have attained a market capitalisation of £13.3bn; 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).

Outperformance 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. Indeed, over the near decade since its IPO, BBGI's share price has out-performed the FTSE-All Share Index, although it has under-performed the FTSE-250 Index over the same period.

Strategy: low-risk, globally diversified, ESG-active and internally managed

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

Four-pillar strategy			
Investment strategy			
Low-risk[1]	**Globally diversified**	**Strong ESG approach**	**Internally managed**
Availability-based investment strategy	Focus on highly rated investment-grade countries	ESG fully integrated into the business model	Alignment of interests
Secure public sector-backed contracted revenues	Stable, well-developed operating environments	Focus on five UN Sustainable Development Goals	Shareholder value first, portfolio growth second
Stable and predictable cashflows	Global portfolio, serving society	Executive compensation linked to ESG performance	Lowest comparative ongoing charges[2]

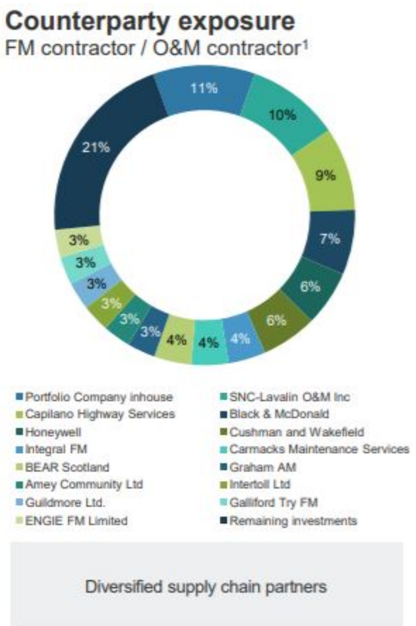
1. In comparison with other equity infrastructure investment classes.
2. In comparison with the latest publicly available information for all LSE-listed equity infrastructure investment companies; Source: BBGI

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 (HICL) £33m write-off, owing 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.

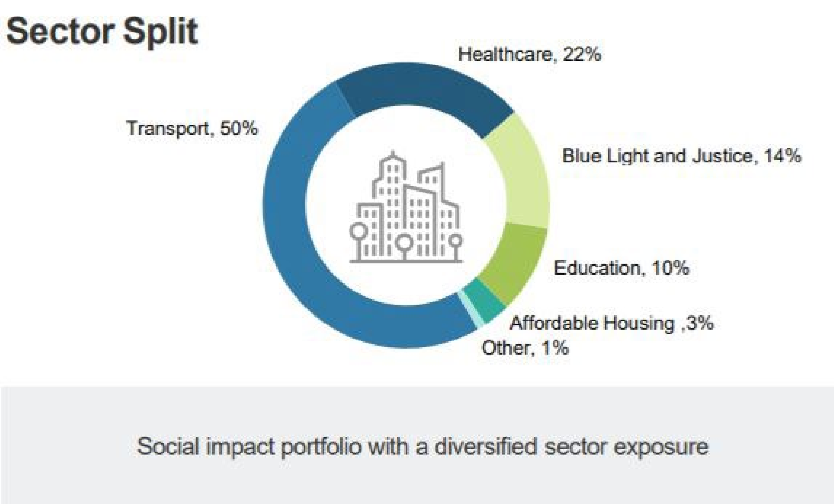
Portfolio

BBGI is quite specific in terms of its investments, of which there are currently 54 – all are required to meet the criteria that its strategy lays out. Three of the 54 investments, all in the UK, were completed after the June 2021 year-end.

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 22%; the blue light/justice and education elements account for 14% and 10%, respectively. Significantly, there is neither utility/energy nor demand-based investment, unlike most other infrastructure investment companies, as the pie chart below shows.

BBGI – sector split

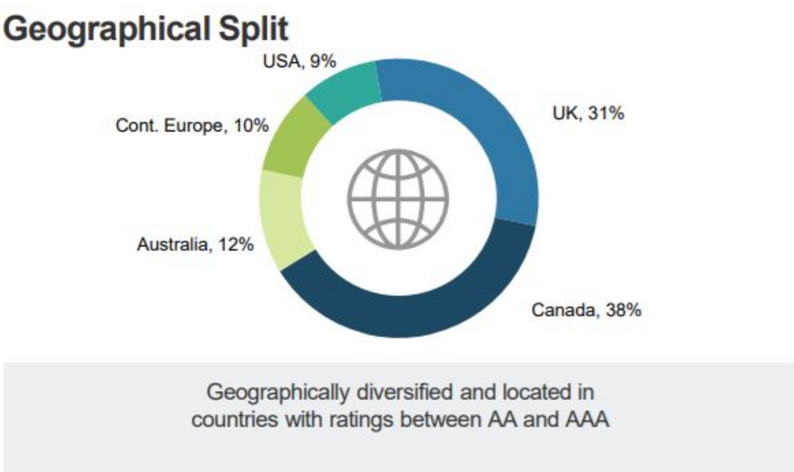


Source: BBGI

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 31%, respectively; the latter figure will rise once the three post-year-end UK acquisitions are included. BBGI's remaining investments are split among Australia, Continental Europe and the US, as the pie chart below highlights.

BBGI – geographical split



Source: BBGI

Debt/equity component

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, the two North American bridge projects – Golden Ears, near Vancouver, Canada, and the Ohio River Bridge, on the Kentucky/Indiana border, US – are the two largest projects in terms of investment by BBGI, at 9% 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 6%, the Victorian Correction Facility, also in Australia, at 5%, and the McGill University Health Centre, in Montreal, Canada, at 5% also.

Post the June 2021 half-year-end, BBGI made three UK investments:

- a 33.3% stake in Aberdeen Western Peripheral Road;
- full ownership of the Ayrshire and Arran Hospital; and
- full ownership of North West Fire and Rescue.

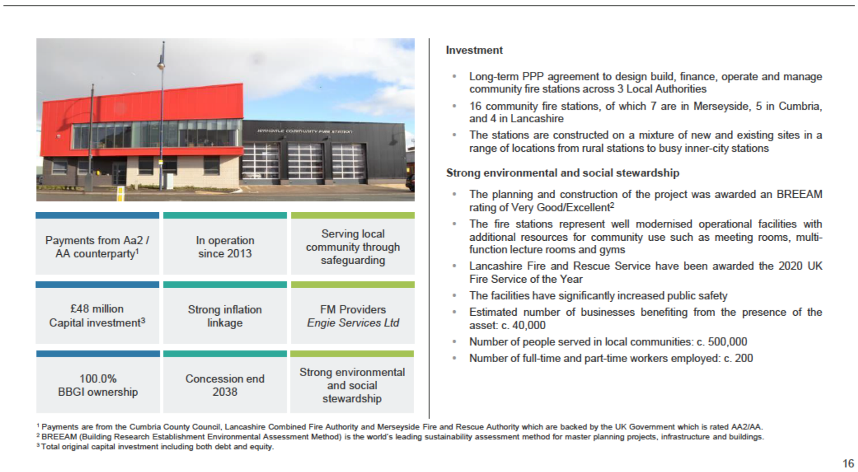
UK community fire station portfolio

In respect of the latter acquisition, ca.£48m of equity/debt has been invested in a 16-strong portfolio of community fire stations in the north of England – seven are on Merseyside, five are in Cumbria, and four are in Lancashire.

At a more general level, this investment provides a good rationale of BBGI's current thinking – and how it addresses the risk/reward conundrum.

The image below shows one of the 16 community fire stations. It also sets out the key financial criteria for this portfolio. The concession is due to end in 2038.

North West Fire and Rescue acquisition



Source: BBGI

Strong pipeline

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

- a ca.£190m EU transport project, for which BBGI has been shortlisted;
- five SNC-Lavalin investment projects in Canada, with a total equity value of ca.£145m; and
- two EU-based accommodation infrastructure investments, with a value of ca.£130m, for which BBGI has also been shortlisted.

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 valuation expert and by the auditor, KPMG. At June 2021, BBGI adopted a weighted average discount rate of 6.56%, compared with 6.77% in December 2020; the December 2019 figure was 7.07%. BBGI's investments were valued within a range of 6.00% to 8.58%. Excepting 3i Infrastructure (3i), which operates a higher risk business, BBGI's average rate is similar to that of most of its comparators, despite the fact that it has a lower risk profile in comparison. Nonetheless, if this rate were to rise appreciably, it would markedly reduce its NAV, although such a decline would be partially offset by higher deposit and inflation rates.
- **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 very good.
- **Foreign exchange movements:** With just over 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. In fact, despite the large non-sterling portion and also as a result of the successful hedging strategy, the foreign exchange impact has been very moderate, equivalent to just 2.7pps of NAV since 2011.

- **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 ca.0.5% of its investments in the construction phase.

- **Corporation tax:** Although BBGI pays corporate taxes across several jurisdictions, it will be impacted by tax rises, albeit to a modest extent. BBGI estimates that the UK government's proposal to raise corporation tax from 19% to 25% in 2023 will reduce its NAV by £8.9m, equivalent to 1p per share. Of course, other governments in countries where BBGI invests could make similar moves on the tax front, which would adversely impact 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, 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

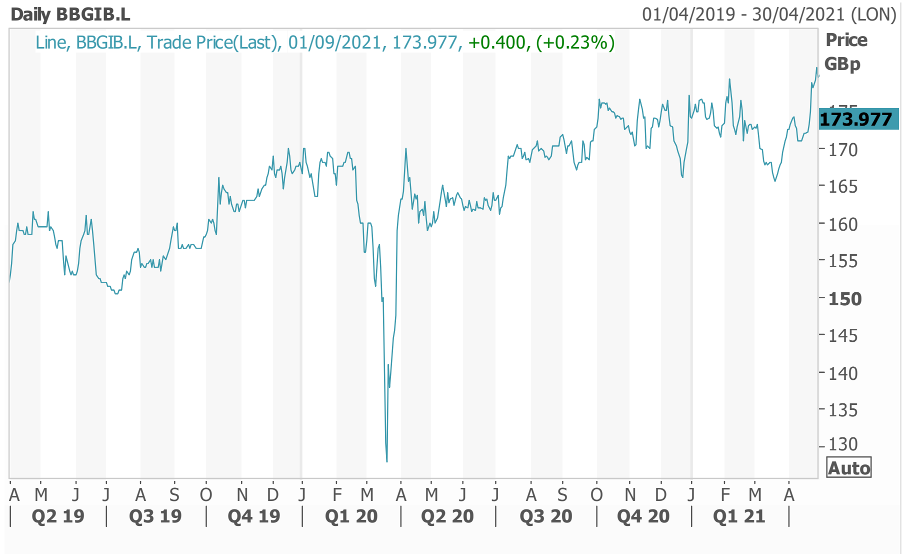
COVID-19 has directly impacted other IICs, with INPP incurring some delays in building the Thames Tideway super sewer, and lower traffic on the Diabolo Rail line in Belgium, which has required a cash injection from INPP. COVID-19 has also been a major factor in weakening long-term power prices, which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

BBGI's share price bounced back after March 2020 chasm

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

The graph below highlights BBGI's performance between April 2019 and April 2021, and shows the now familiar share price chasm in March 2020, from which BBGI's share price has rallied subsequently.

BBGI – share price, April 2019 to April 2021



Source: Hardman & Co Research

Financial data

Flat NAV highlighted at interim results – higher corporation tax a factor

On 27 August 2021, BBGI reported its interim results for the first six months of 2021. Although there were no surprises in the figures, NAV per share, at 137.8p, was flat – as higher UK corporation tax rates were absorbed.

Very robust balance sheet, with small net cash balance

Set out in the table below is BBGI's statement of its financial position at 30 June 2021; it highlights BBGI's lack of net debt.

BBGI – statement of financial position at June 2021

£000	at 30/06/2021	at 31/12/2020
Assets		
Property and equipment	60	58
Investments at FV through profit or loss	913,332	895,674
Deferred tax assets	441	225
Derivative financial assets	661	12
Non-current assets	**914,494**	**895,969**
Trade and other receivables	880	1,631
Other current assets	2,000	2,164
Derivative financial assets	405	247
Cash and cash equivalents	29,793	20,532
Current assets	33,078	24,574
Total assets	**947,572**	**920,543**
Equity		
Share capital	772,501	770,942
Additional paid-in capital	834	1,517
Translation reserves	-6,527	-597
Retained earnings	151,271	143,978
Equity attributable to the owners of the company	**918,079**	**915,840**
Liabilities		
Loans and borrowings	23,271	0
Derivative financial liabilities	9	218
Non-current liabilities	**23,280**	**218**
Loans and borrowings	208	177
Trade payables	222	73
Accruals/other payables	3,553	2,643
Derivative financial liabilities	721	25
Tax liabilities	1,509	1,567
Current liabilities	**6,213**	**4,485**
Total liabilities	**29,493**	**4,703**
Total equity and liabilities	**947,572**	**920,543**
NAV attributable to the owners of the company	**918,079**	**915,840**
NAV per ordinary share (p)	**137.8**	**137.8**

Source: BBGI

BBGI outperforms on costs

In terms of costs, BBGI's figures compare very favourably with those of other IICs, partly because of its internal management policy. In 1H'21, BBGI's ongoing costs' percentage was 0.86% and is the lowest in the IIC sector. The latest reported cost ratios for HICL and INPP were 1.07% and 1.18%, respectively.

Cashflow modelling

Looking forward, we have modelled BBGI's future cashflow. Clearly, much will depend on the level of future investments. However, BBGI has recently published dividend targets until 2023 – so these have been incorporated into our cashflow projections.

To reflect the uncertainty relating to future investment trends, we have assumed that BBGI issues a further 53.3m shares – 7.5% of its current shares in issue – at 166p in December 2022, which would raise gross proceeds of £88.5m.

Two recent – and successful – fundraising precedents

Such an issue would be similar to the last two equity issues that BBGI has undertaken. In July 2021, it raised gross proceeds of £75m, when 45.18m new shares were issued at 166p. In November 2020, it raised gross proceeds of £55m, when 32.54m new shares were issued at 169p. Both issues attracted strong investor support.

Summary of cashflow projections (£m)

	2019	2020	2021E	2022E	2023E
Cash and cash equivalent at 1/1	10.4	34.8	20.8	32.9	38.0
Distributions from investments	64.0	72.8	79.4	85.7	92.6
Operating costs	-10.9	-18.7	-19.4	-20.4	-21.8
Net operating cashflows	**53.1**	**54.1**	**59.9**	**65.3**	**70.7**
Equity investments	-62.9	-59.2	-80.0	-95.0	-110.0
Proceeds from drawdowns	81.8	41.0	75.0	85.0	100.0
Net proceeds of fund raise	73.9	54.5	74.3	88.0	0
Dividends paid	-40.8	-42.6	-49.2	-53.2	-57.8
Repayment of loans and borrowings	-81.0	-62.0	-65.0	-85.0	-90.0
Impact of FX gain/loss	0.3	0.2	0	0	0
Cash and cash equivalent at 31/12	**34.8**	**20.8**	**32.9**	**38.0**	**21.6**
Cash dividend cover (x)	**1.30**	**1.27**	**1.15**	**1.23**	**1.22**
Dividend per share (p)	**7.00**	**7.18**	**7.33**	**7.48**	**7.63**
NAV per share (p)	**136.2**	**137.8**	**139.2**	**140.8**	**142.6**
Number of shares (m)	**605.1**	**665.0**	**711.3**	**764.6**	**766.0**

Source: Hardman & Co Research

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 inclination to move up the risk spectrum purely to pursue growth.

A key factor in its ongoing valuation is BBGI's investment profile. In 2020, new investment was £59.2m. For 1H'21, the figure was £27.9m. Looking forward, BBGI's investment profile will be very dependent on whether it secures any of the key contracts for which it has been shortlisted – and the extent of any subsequent investment.

Discount rate is the major factor in determining NAV

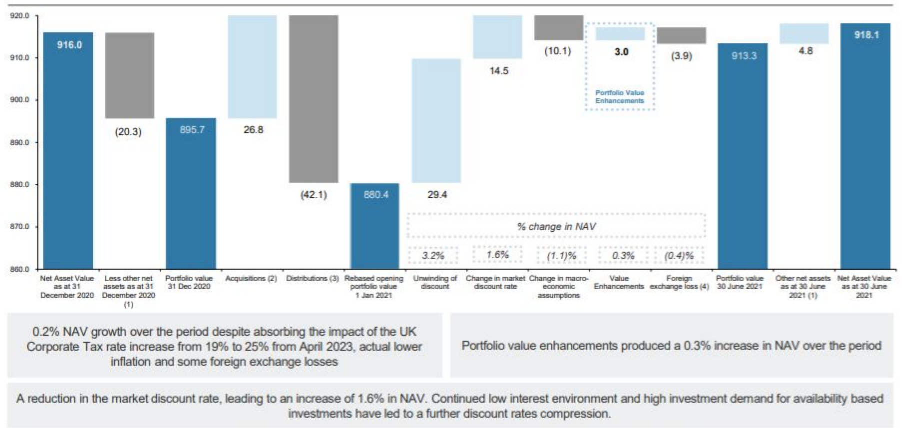
Irrespective of its investment level – notwithstanding the specifics of Fair Value (FV) accounting – there are many other elements that determine the NAV for IICs such as BBGI, with the chosen discount rate being the major factor.

NAV movements in 1H'21

In its 2021 interim results, BBGI confirmed that its NAV had risen to over £918m; value enhancement for the six-month period was £3m.

The chart below highlights the NAV changes that occurred between 31 December 2020 and 30 June 2021.

BBGI – portfolio value movement (£m)



Source: BBGI

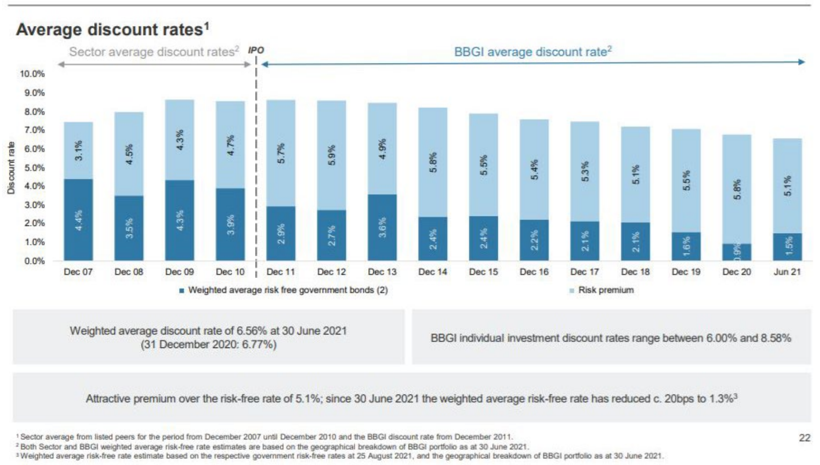
Three particular issues merit comment:

- The weighted average discount of 6.56% compares with 6.77% at December 2020 – the former figure is based on a range of between 6.00% and 8.58%. Given that the latest weighted average discount rate is below 0.6% above the lower figure, it suggests that few investments are discounted near the outlying – and considerably higher – 8.58% 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 space.
- The high-risk premium – over the risk-free rate – endures.

5.1% premium over risk-free rate currently

The graph below illustrates how the premium over risk-free yields, currently 5.1%, has fluctuated in recent years.

BBGI – discount rates



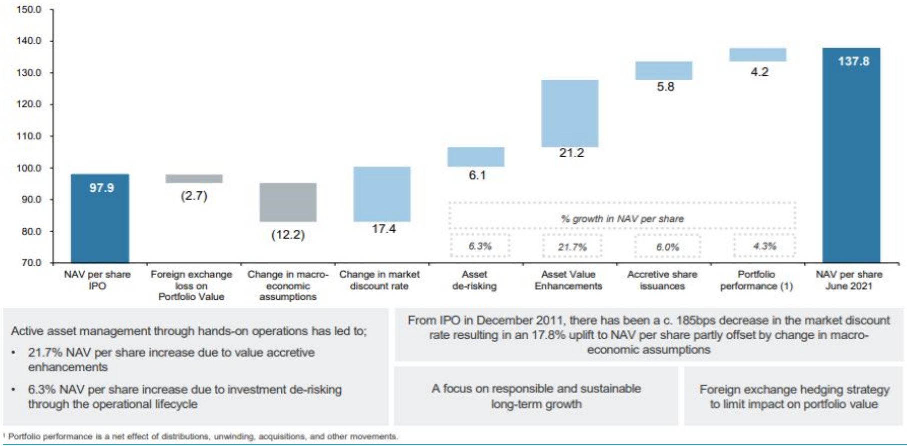
Source: BBGI

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, owing, in part, to asset value enhancements and 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 by 40.8% since IPO



Source: BBGI

In its recognition of the pivotal valuation role of its chosen discount rate – currently 6.56% – 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

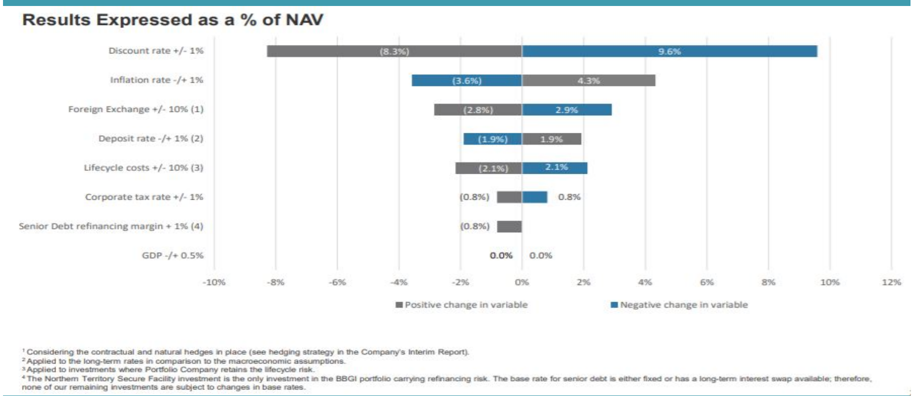
The analysis shows that a 1% rise in the discount rate to 7.56% would cut NAV by ca.£88m, equivalent to 9.6%. On the upside, a 1% cut in the discount rate would yield a benefit of ca.£76m, equivalent to an 8.3% rise in NAV. Clearly, these are large swings.

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 ca.£33m.

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

Long-term locked-in cashflow

In the longer term, BBGI seems set to benefit considerably from a strong cashflow profile, which assumes income of ca.£2.4bn between 2021 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 discount rates approximating to those used over the last 18 months by BBGI, yields similar valuations.

Dividends

Where to find secure dividends

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

Many FTSE 100 companies have 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.

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.

Well-positioned for the ESG megatrend

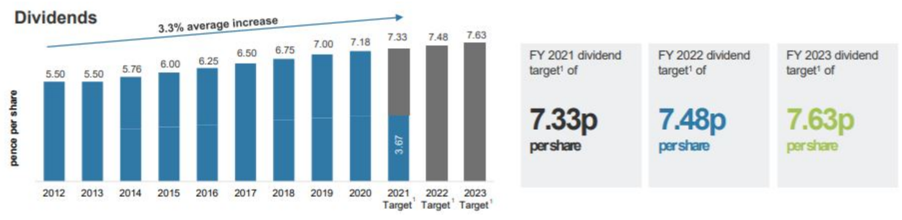
Discerning investors will have noted, too, the far stronger emphasis that BBGI now accords to ESG standards – certainly compared with many other quoted companies – and its determination to meet them.

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% 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, 2012-23E



Source: BBGI

Dividend of 7.33p planned for 2021, rising to 7.63p by 2023

For the 2021 full year, BBGI has signalled to the market to expect a dividend of 7.33p, an increase on the 2020 payment of 2.1%. The cash dividend cover at June 2021 was 1.55x, but BBGI has confirmed that this seemingly reassuring figure will be lower at the December 2021 year-end. BBGI's 2022 and 2023 targets are 7.48p per share and 7.63p per share, respectively.

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 latter count since its IPO in 2011, with shareholder returns averaging 10.8% per year, as illustrated by the chart below.

BBGI – total shareholder return

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

In particular, HICL's dividend for both 2019/20 and 2020/21 was 8.25p per share. Despite previous aspirations of dividend growth, the same dividend payment is being targeted for 2021/22. Owing to its holdings of many demand-based investments, COVID-19 has caused revenue budgets to be missed.

The table below shows our prospective dividend forecasts, along with the latest NAV data. Also included, for comparative purposes, are the two leading REIFs, TRIG and Greencoat UK Wind.

Investment data for IICs and REIFs

	Share price (p)	Shares in issue (m)	Market cap (£m)	Y/E	Latest NAV (p)	Premium to NAV	Prosp. DPS (p)	Prosp. yield
3i	320	891	2,852	Mar	268.1	19.4%	10.45	3.3%
BBGI	173	711	1,230	Dec	137.8	25.5%	7.33	4.2%
GCP	106	881	934	Sep	102.2	3.7%	7.00	6.6%
Greencoat UK Wind	130	1,975	2,568	Dec	125.2	3.8%	7.18	5.5%
HICL	172	1,940	3,337	Mar	152.3	12.9%	8.25	4.8%
INPP	173	1,710	2,958	Dec	147.1	17.6%	7.74	4.5%
Sequoia	114	1,763	2,003	Mar	101.9	11.5%	6.25	5.5%
TRIG	128	2,103	2,692	Dec	114.3	12.0%	6.76	5.3%
			17,166					

Share prices as at 26/8/2021; Source: Company accounts, Hardman & Co Research

The yields vary somewhat across the six IICs and the two REIFs, reflecting, in part, the changed dividend outlook for funds such as HICL and the struggling GCP Infrastructure (GCP). The average yield for this octet is currently ca.5%.

ca.5% sector yield

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. 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-over limitations

Nevertheless, it is valid to assess those IICs that do have many similar features to BBGI. Indeed, 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 funds under review.

Turbulent times

Undoubtedly, the last 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 generally held up, their income statements have seen major changes in reported income, related partly to FV accounting issues.

Indeed, over the last year, NAVs per share have fluctuated significantly – and, in some cases, have declined. The table below shows the latest NAVs published by each IIC, excepting Cordiant Digital, and by the two REIFs under review, along with their NAV figures for one year previously.

Variable NAV returns in 2021 – BBGI up, GCP down

Performances over that time period have certainly been mixed, with 3i being at the top of the list. However, BBGI has managed to report modest growth in its NAV per share, unlike GCP, whose NAV has fallen appreciably, owing mainly to lower long-term energy prices.

One-year NAV movements of IICs

	Latest NAV per share (p)	Date	NAV per share (p) – 1 year before	Change
3i	268.1	Mar'21	254.5	+5.3%
BBGI	137.8	Jun'21	136.4	+1.0%
GCP	102.2	Jun'21	107.7	-5.1%
Greencoat UK Wind	125.2	Jun'21	120.1	+3.4%
HICL	152.3	Mar'21	152.3	Unchanged
INPP	147.1	Dec'20	150.6	-2.3%
Sequoia	101.9	Jul'21	98.02	+3.8%
TRIG	114.3	Jun'21	113.0	+1.2%

Source: Company accounts, Hardman & Co Research

Management

Small – and successful - team

BBGI has a small, but highly successful, management team, as the 10.8% 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 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 also 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 Chair of BBGI, having been a former corporate finance partner at PricewaterhouseCoopers, as well as 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 Chair 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 Abrdn (formerly Standard Life Aberdeen). She is now Chair of the audit committee at BBGI.

ESG

ESG is a BBGI priority

BBGI's management team accords a high priority to meeting its 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.

ESG now an investment factor…

Two specific ESG developments in 2020 warrant a mention:

…and BBGI recently published first-ever separate ESG Report

- BBGI has adopted a policy to "integrate ESG into its investment cycle" – a key initiative that few other companies openly espouse; and
- BBGI has recently published its first-ever separate ESG Report, available on *https://www.bb-gi.com/media/2023/bbgi-esg-report-21_final-300321-v2_lores.pdf*.

Integrating ESG is the mantra

More specifically, BBGI has been implementing the five key initiatives set out in its 2019 Annual Report, namely:

- 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; and
- to monitor – and to report on – ESG initiatives.
- See page 19 of results presentation with targets for 2021

With respect to 2021, BBGI has set the following voluntary targets.

- *"To collect the necessary data that will allow us to voluntarily report BBGI's corporate level Scope 1, 2 and 3 emissions in our 2021 Annual Report and our next stand-alone ESG report.*
- *Once corporate level Scope 1, 2 and 3 emissions are known and disclosed for BBGI, we commit to being a carbon neutral company by the end of 2021.*
- *To collect the necessary data that will allow us to track the Scope 1 and Scope 2 emissions at our various Portfolio Companies beginning 1 January 2022. This information will be shared with our public sector clients with the goal that it will help influence outcomes that support a reduction in greenhouse emissions at the Portfolio Companies.*
- *Aspire to set a corporate Net Zero Target by end of 2021 which will follow science-based targets."*

Unbridled commitments

By any standards, these are wide-ranging pledges, and this 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 UN PRI signatory

Furthermore, BBGI is a signatory to the United Nations' Principles for Responsible Investment (UN PRI); it has received a UN PRI rating of "A". BBGI is also a signatory to the United Nations' Global Compact, a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) and a SDFR Article 8 Fund

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, owing mainly to its lack of demand-based, or other higher risk 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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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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