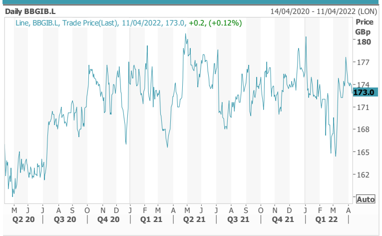
12 April 2022

HARDMAN&CO.

Infrastructure



Source: Refinitiv

Market data

EPIC/TKR	**BBGI**
Price (p)	**174**
12m high (p)	181
12m low (p)	161
Shares (m)	712
Mkt cap (£m)	1,239
EV (£m)	1,266
Country of listing	UK
Market	FTSE 250 member of LSE

Description

BBGI Global Infrastructure (BBGI) has a 55-strong investment portfolio, mainly in the transport, health, blue light and justice, and education sectors. Canada and the UK are its key markets.

Company information

Joint CEO	Duncan Ball
Joint CEO	Frank Schramm
Chair	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%

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BBGI GLOBAL INFRASTRUCTURE

NAV and dividend up – 10.4% TSR p.a. from 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 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. All investments are via Public, Private Partnerships (PPPs) or derivatives thereof, and all its investments are availability-based – not demand-based – supported by government-backed revenues; hence, the cashflow line is highly reliable, with a good inflation hedge.

- **Background:** Central to BBGI's business are its 55 essential, social infrastructure investments ranging from bridges in North America to a hospital facility in Australia. Crucially, its equity portfolio comprises low-risk and public-sector-backed, availability-based infrastructure investments, with good inflation linkage.
- **Operations:** BBGI's main operating jurisdictions are in North America, specifically Canada, and in the UK. Revenues from all 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 successful track record since its 2011 IPO, with total shareholder returns averaging 10.4% p.a. It has consistently traded at a premium to NAV; currently it is 23.7%. Since 2016, this premium has gradually risen. BBGI's shares yield 4.3%, based on the prospective 2022E 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 – unlike some of its peer group.
- **Investment summary:** In the quest for reliable dividends, some 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 2021 full-year results, published on 31 March 2022, BBGI confirmed its dividend targets – 7.48p per share for 2022E, 7.63p per share for 2023E and, for the first time, 7.78p per share for 2024E.

Financial summary and valuation

Year-end Dec (£m)	2020	2021	2022E	2023E	2024E
Distributions from investments	72.8	75.1	81.1	87.6	93.0
Operating costs	-18.7	-20.5	-21.3	-22.4	-23.5
Net operating cashflows	54.1	54.6	59.8	65.2	69.50
Equity investments	-59.2	-79.2	-85.0	-96.0	-102.0
Drawdown proceeds	41.0	67.0	80.0	95.0	90.0
Net proceeds from fund raise	54.5	73.9	0	0	120.0
Dividends paid	-42.6	-48.0	-52.7	-53.8	-60.4
Dividend per share (p)	7.18	7.33	7.48	7.63	7.78
Dividend yield	4.2%	4.2%	4.3%	4.4%	4.5%
NAV per share (p)	137.8	140.7	141.5	144.0	147.0

Source: Hardman & Co Research

Disclaimer: This research has been paid for by the company. Please read the important disclaimers at the end of this document.

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Note: *Share prices as at the close on 5 April 2021, unless otherwise specified. A C$0.61 to the £ exchange rate has been used.*

BBGi INVESTING IN GLOBAL INFRASTRUCTURE

Executive summary

- While some other quoted IICs have been adversely affected by the COVID-19 pandemic, BBGI's exposure – owing to its lack of demand-based investments – has been minimal. All its revenues – distributions received from its 55 globally diversified investments – are earned from availability-based assets; they are not dependent on demand levels.

- BBGI recognises that securing the appropriate counterparties is crucial 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 past two years, many other FTSE 250 stocks have cut their dividend payments. Since its IPO in December 2011, BBGI's dividend has risen, on average, by 3.3% per year. For 2022E, it is planning to pay a dividend of 7.48p per share: the targets for 2023E and 2024E are 7.63p per year and 7.78p per share, respectively, equivalent to an annual 2% increase.

- Since its IPO in 2011, BBGI has delivered an annual NAV increase of 7.4% and an annual shareholder return of 10.4% – both are impressive figures in today's challenging financial environment. With a December 2021 NAV of 140.7p per share, BBGI is currently trading at 23.7% above its NAV. Indeed, BBGI's shares, historically, have traded at a premium to its NAV, reflecting the market's long-standing view that the portfolio is both low-risk and conservatively valued.

- Resilience has been the hallmark of BBGI's recent share price performance. Having plunged by almost 25% from 170p on 13 February 2020 to 128p by 19 March 2020 – when the COVID-19 investment panic caused heavy index-selling, almost all stocks were adversely 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, at 0.86%, which is 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. BBGI also published a separate ESG report for 2020: *https://www.bb-gi.com/media/2023/bbgi-esg-report-21_final-300321-v2_lores.pdf*. A new, updated version will be published shortly.

- Overall, BBGI's risks are comparatively low, although – in common with its peers – its returns are susceptible to a rise in interest rates and the consequential impact on its current 6.55% 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. BBGI also offers good inflation linkage, a low beta and minimal risks in terms of climate change policies.

Sector background

Infrastructure investment is surging

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, as well as other socially orientated, facilities.

Increasingly, governments are looking to the 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, generally, governments have 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 actually financing them.

Buoyant stock market sector

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, nine 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 £15.8bn.

BBGI

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

Outperformance since 2011 IPO

BBGI's IPO took place in December 2011. Subsequently, it 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 decade since its IPO, BBGI's share price has outperformed the FTSE All-Share Index, although it has underperformed 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) adopting a 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*	**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 delivering social impact and high degree of climate resilience	Shareholder value first, portfolio growth second
Stable and predictable cashflow with progressive long-term dividend growths	Global portfolio, serving society through supporting local communities	Executive compensation linked to ESG performance	Lowest comparative ongoing charges**

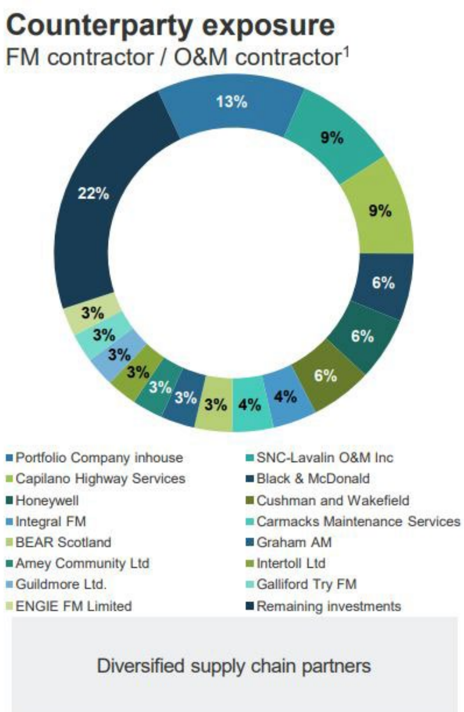
** In comparison with other equity infrastructure investment classes.*
***In comparison with the latest publicly available information for all LSE-listed equity infrastructure investment companies; Source: BBGI*

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, due to Carillion's financial collapse in 2018, emphasised the need to accord real priority to managing counterparty risk.

In the pie chart below, BBGI's counterparty liabilities are highlighted: it demonstrates that 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

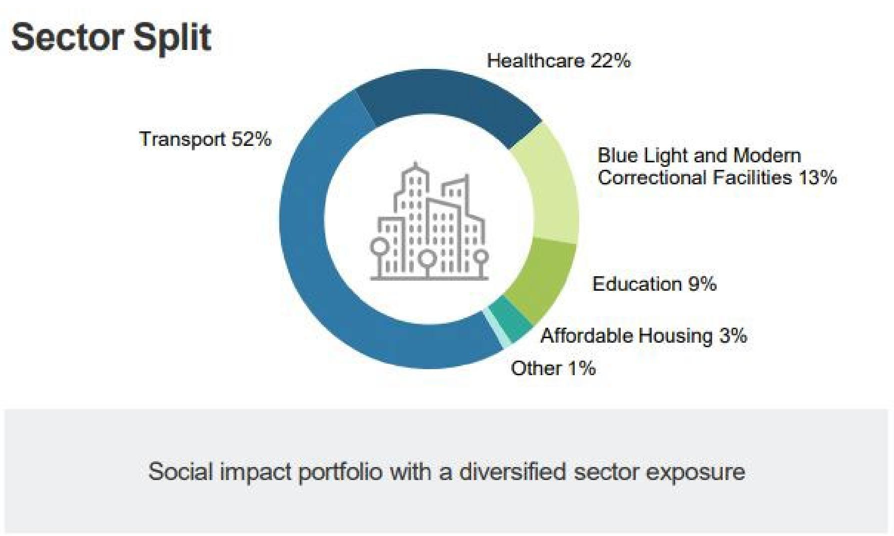
55-strong asset portfolio

BBGI is very specific in terms of the characteristics of its investments, of which there are currently 55 – all are required to meet the criteria that its strategy lays out. Four of the 55 investments, all of which were in the UK, were acquired in 2021, while a further investment in Canada completed after the December 2021 year-end.

52% to roads/bridges

Just over 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/modern correctional facilities and education elements account for 13% and 9%, respectively. The pie chart below shows BBGI's sector split.

BBGI – sector split

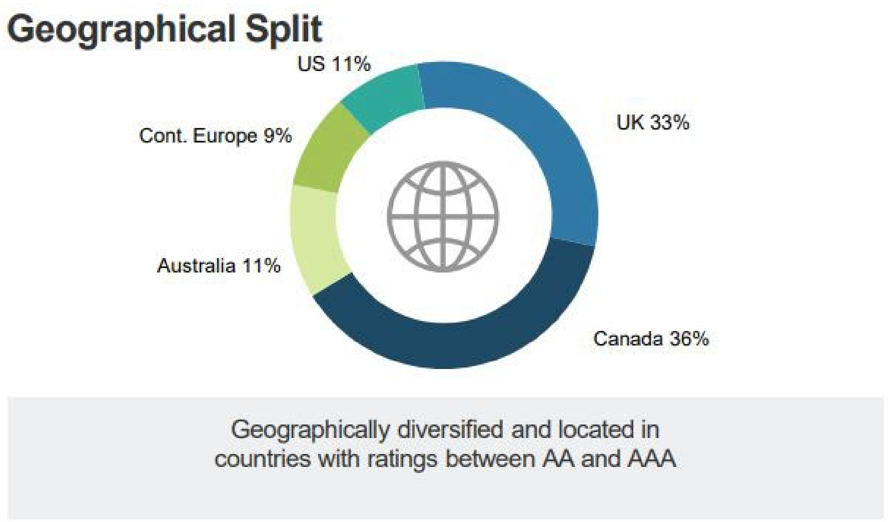


Source: BBGI

Canada and UK are the preferred jurisdictions

Geographically, as its key markets, BBGI straddles Canada and the UK. Both jurisdictions have established – and widely respected – legal systems, with a history of dealing with the various issues relating to infrastructure investments. The country exposures, on an investment basis, are 36% and 33%, respectively. 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.

The Ohio River Bridges and Golden Ears Bridge are BBGI's top two investments

In terms of its core investments, the two North American bridge projects – the Ohio River Bridges, on the Kentucky/Indiana border in the US, and the Golden Ears Bridge, near Vancouver, in Canada – are the two largest projects in terms of investment by BBGI: they account for 11% and 9% of BBGI's portfolio value, respectively. The concession periods are extended, lasting until 2051 for the former and until 2041 for the latter.

The three next largest investments in BBGI's portfolio are the Northern Territory's Secure Facilities project, near Darwin, Australia, at 6%; the McGill University Health Centre, in Montreal, Canada, at 5%; and the Victorian Correction Facility, Australia, at 4%,

Recently, BBGI completed three UK investments, namely:

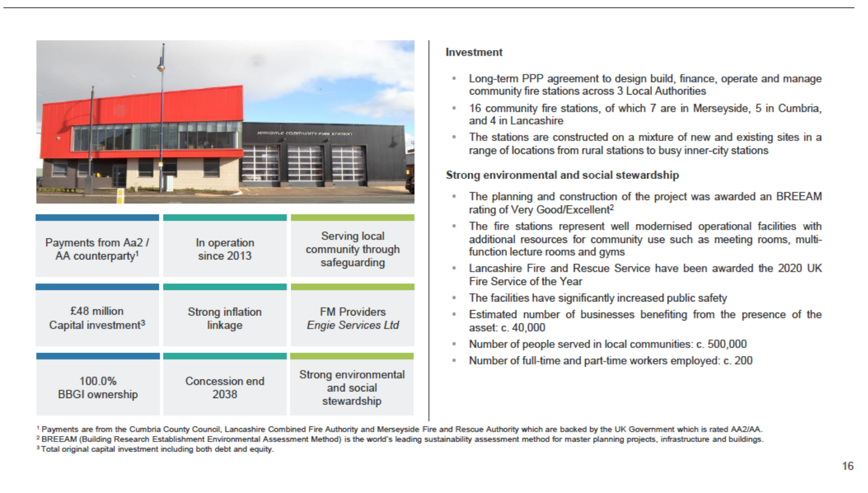
- securing full ownership of North West Fire and Rescue;
- securing full ownership of the Ayrshire and Arran Hospital; and
- acquiring a 33.3% stake in Aberdeen Western Peripheral Road.

UK community fire station portfolio

More specifically, in respect of the first of these three acquisitions, 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. This investment provides a good example of BBGI's current investment strategy, and how it addresses the risk/reward conundrum at the heart of the infrastructure investment sector.

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

North West Fire and Rescue acquisition



Source: BBGI

Investing in the Aberdeen bypass scheme

Elsewhere in the UK, BBGI has focused on the Aberdeen Western Peripheral Route in Scotland. BBGI has acquired a 33% stake in a concession that runs until 2047. The project centres on a road scheme that bypasses Aberdeen and includes both new road-build and some upgrading of the existing route.

The illustration below shows part of the dual carriageway around Aberdeen.

Aberdeen Western Peripheral Route (UK)

Source: BBGI

Fixed subordinated debt coupon protection

Within this project, which has had a troubled history of financing issues involving the collapsed Carillion, BBGI is not only remunerated through its traditional availability-based system, but it is also the recipient of a fixed subordinated debt coupon, which lowers its financial risk still further.

Aberdeen bypass project now operational

Importantly, the construction issues relating to the project were resolved, so it was significantly de-risked. While Carillion's involvement generated headline risks during the construction phase, the asset is now operational and providing significant benefits to the people of Aberdeen – reduced journey times, less congestion and an alternative route, which now allows heavy lorries to avoid the city centre.

First – albeit tentative - move into energy

In North America, BGGI has recently completed an 80% investment in a PPP agreement for the design, construction, finance, operation and maintenance of the 132MW John Hart hydro-electric plant in British Columbia, Canada. It is BBGI's first investment in the renewable energy sector and it is aligned with its availability-based strategy.

The new underground powerhouse for the John Hart hydro-electric plant will replace one built in 1947; it is illustrated below.

John Hart hydro-electric plant and turbines, British Columbia, Canada

Source: BBGI

No power price risk assumed

Importantly for BBGI, it will receive availability-based payments – as elsewhere in its portfolio – from this C$41m (£25m) energy investment. Crucially, BBGI will not be exposed to either electricity demand or power price risk.

A harbinger for future BBGI energy investment?

More generally, BBGI's first foray into the energy sector may be the start of further investments, where concerns about future energy supplies – and, more specifically, the lack of plant capacity – abide. However, BBGI's resolve to avoid material exposure to power price risk seems likely to be the key driver of any further energy investments.

CHUM completion outstanding

Aside from energy investment, BBGI will also be seeking to complete its planned 25% PPP investment in Center Hospitalier de l'Universite de Montreal (CHUM). The PPP covers the design, construction, finance, operation and maintenance of a fully functional new hospital, along with a swathe of other related commercial and retail facilities.

Substantial hospital project

BBGI announced its agreement to invest in CHUM in October 2021 and completion of this complex deal is expected within the coming months. The size of the PPP is illustrated by the fact that it covers 772 private patient rooms and no less than 39 operating theatres. Inevitably, obtaining all the required consents will be a challenging – and time-consuming – undertaking.

In terms of its planned CHUM investment, a figure of C$88m (£53.7m) has been quoted by BBGI, although this figure is necessarily subject to various adjustments.

More Lavalin opportunities

Looking forward, and aside from CHUM, BBGI has a strong pipeline of possible investments, despite the struggling global economy. Two potential opportunities, involving heavy investment, have been highlighted by BBGI, namely:

- four SNC-Lavalin projects in Canada, with a total investment figure potentially of C$200m (£122m); and
- a ca.£190m (including both debt and equity) EU transport project, for which BBGI has been short-listed.

Secondary tuck-in investment

BBGI also invests at a secondary level, where either an opportunity to buy an equity stake in a new project arises, or where it may decide to increase its stake in an existing investment. Importantly, some construction companies, especially those that are highly geared, are often ready sellers as they seek to avoid owning majority stakes, which require consolidation in their own published accounts. While such acquisitions may be low-profile – when compared with investment in new PPPs in the development/construction phase – they represent an important source for deployment of BBGI funds.

Risks

Still some risks

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

- **Discount rate movements:** Like other IICs, its chosen discount rate has a major impact upon BBGI's NAV. Selecting the appropriate discount rate to value its cashflows is a rigorous process, based on market observations and recent transactions. The task is undertaken by BBGI's management board, while its audit committee approves the methodology and checks the assumptions and the outcome. The valuation is reviewed by an independent third-party valuation expert and is signed off, as part of the audit, by the auditor, KPMG. At December 2021, BBGI adopted a weighted average discount rate of 6.55%, 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%: the 6.55% December 2021 rate represents a 5.1% premium to the risk-free rate. BBGI's average discount rate is similar to that of most of its peers, despite the fact that it has a lower risk profile. Nonetheless, if this applied discount rate were to rise appreciably, it would reduce BBGI's NAV, although such a decline would be partially offset by higher deposit and inflation rates (see below).
- **Inflation:** While, for many sectors, rising inflation is a serious concern, IICs derive benefit from higher inflation; indeed, many of sector revenues are inflation-linked. In BBGI's case, it has recently confirmed a 0.44% linkage to inflation, based on applying a plus 1% inflation sensitivity to the portfolio cashflow. On the downside, BBGI is exposed to lower inflation, especially with respect to its NAV figure.
- **Poor investment decisions:** Any investment company is beholden to the quality of its investments and to the managers making key investment decisions. Given the consistent rise in its NAV since its IPO in 2011 – up by 7.4% p.a. over the decade – BBGI can argue – with genuine conviction – that its overall decision-making has been very good.
- **Foreign exchange movements:** With ca.33% 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. Owing to its successful hedging strategy, the foreign exchange

impact has been very moderate, equivalent to just 2.6pps of NAV – less than 2% – since 2011.

- **Counterparties:** Given the many counterparties with whom it contracts, BBGI is at risk if one of its leading 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. In fact, at present, BBGI has just ca.0.5% 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. Importantly, the UK government's higher corporation tax rate accounted for a ca.1% cut in its 2021 NAV. Clearly, other governments in countries where BBGI invests could make similar moves on the tax front, which would adversely affect BBGI's returns.

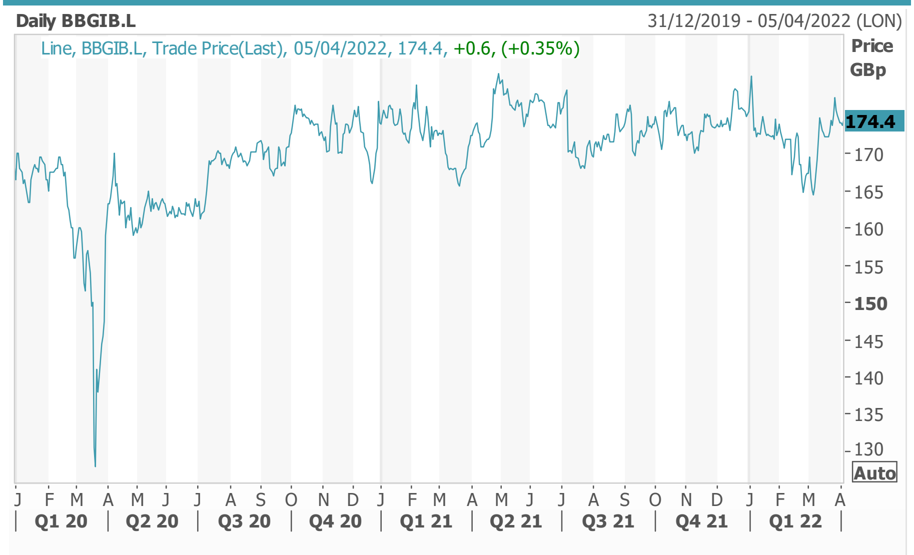
- **COVID-19:** BBGI has suffered no material COVID-19-related setbacks, mainly because its cashflow is not materially affected by falling demand levels; unlike, for example, HICL, 20% of whose portfolio, mainly the transport-related element, is dependent on returns from demand-based assets. In addition, INPP has faced some delays in building the Thames Tideway super sewer and has also suffered from lower traffic levels on the Diabolo Rail line in Belgium, which necessitated a cash injection from INPP. Undoubtedly, the absence of demand-based investments in BBGI's portfolio has been distinctly beneficial over the past two years.

BBGI's bouncebackability

In hindsight, it was hardly surprising that BBGI's share price bounced back strongly from its plunge in March 2020, as investors panicked about the impact of COVID-19, which saw heavy index-selling.

The graph below shows BBGI's share price performance between January 2020 and April 2022, highlighting the now familiar COVID-19 chasm in March 2020, from which BBGI's share price has rallied subsequently. In fact, BBGI's current share price is close to a record high and gives rise to a premium over NAV of 23.7%.

BBGI – share price, January 2020 to April 2022



Source: Refinitiv

Financial data

2.1% higher NAV in 2021

On 31 March 2022, BBGI reported its full-year results for 2021 – there were no surprises in the figures. NAV per share rose by 2.1% to 140.7p per share compared with 137.8p per share at December 2020.

Robust balance sheet with a £26.9m net cash balance

BBGI's statement of its financial position at 31 December 2021 highlighted the strength of its balance sheet; indeed, it showed a net cash balance of £26.9m.

A summary of BBGI's statement of financial position as at 31 December 2021 is reproduced in the Appendix.

Looking forward, we have modelled BBGI's future cashflow. Clearly, much will depend on the level of future investments undertaken by BBGI. Also, BBGI has recently published its dividend targets until 2024 – so these have been incorporated into our cashflow projections.

Two successful recent fund raises

While BBGI's current £26.9m net cash position suggests that there is no need for further funds, especially given the £230m Revolving Credit Facility (RCF) that was agreed in June 2021, this could change if substantial investment were undertaken.

To reflect this uncertainty, we have assumed, for illustrative purposes, that BBGI issues a further 71.2m shares – 10% of its current shares in issue – at 170p on 1 January 2024, which would raise gross proceeds of £121.0m. Such an issue would be similar to the two most recent 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.

Our cashflow projections until 2024 are reproduced below.

Summary of cashflow projections (£m)

	2020	2021	2022E	2023E	2024E
Cash and cash equivalent at 1/1	34.8	20.8	26.9	-26.0	-35.4
Distributions from investments	72.8	75.1	81.1	87.6	93.0
Operating costs	-18.7	-20.5	-21.3	-22.4	-23.5
Net operating cashflows	**54.1**	**54.6**	**59.8**	**65.2**	**69.5**
Equity investments	-59.2	-79.2	-85.0	-96.0	-102.0
Proceeds from drawdowns	41.0	67.0	80.0	95.0	90.0
Net proceeds of fund raise	54.5	73.9	0	0	120.0
Dividends paid	-42.6	-48.0	-52.7	-53.8	-60.4
Repayment of loans and borrowings	-62.0	-62.0	-55.0	-85.0	-90.0
Impact of FX gain/loss	0.2	-0.2	0	0	0
Cash and cash equivalent at 31/12	**20.8**	**26.9**	**-26.0**	**-35.4**	**61.2**
Cash dividend cover (x)	**1.27**	**1.14**	**1.13**	**1.21**	**1.15**
Dividend per share (p)	**7.18**	**7.33**	**7.48**	**7.63**	**7.78**
NAV per share (p)	**137.8**	**140.7**	**141.5**	**144.0**	**147.0**
Number of shares (m)	**665.0**	**712.0**	**712.0**	**712.0**	**783.2**

Source: Hardman & Co Research

Financial performance over a decade

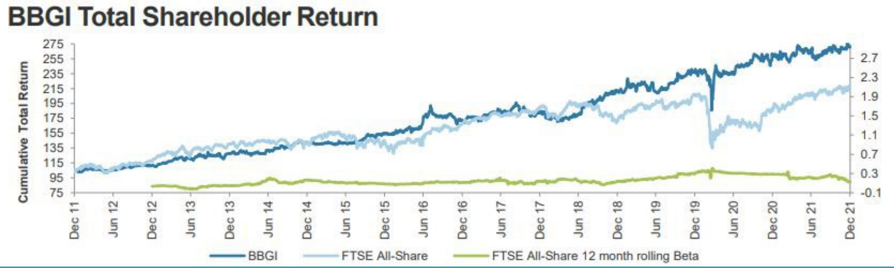
Over the past decade, since its IPO in December 2011, BBGI has performed extremely well in terms of meeting shareholders' expectations. During that period, its total shareholder returns (TSR) have exceeded 171%, equivalent to 10.4% per year.

Bar 3i Infrastructure, BBGI is the only IIC to deliver double-figure TSR growth over an extended period

Impressively, with the exception of 3i Infrastructure whose risk profile is significantly more aggressive, BBGI is the only IIC to have delivered double-figure annual growth in its TSR over an extended period. By comparison, the TSR figure for HICL is 8.9% since its IPO in 2006 and, for INPP, probably BBGI's closest comparator, it is – over a similar period – 8.5%.

The graph below highlights how BBGI's TSR growth has developed during the previous decade and how it has outperformed the FTSE All-Share for most of the period after 2015.

BBGI – total shareholder return



Source: BBGI

Key drivers behind BBGI's NAV increase

More specifically, there are several key drivers that have been crucial in increasing BBGI's NAV per share, which include:

- Asset value enhancement, which – over the decade – has contributed 28.8p per share to the December 2021 NAV of 140.7p per share: BBGI's management team has been pivotal to generating this enhancement.
- Unlike some of its peer group, such as HICL and INPP, as well as leading REIFs, BBGI has avoided any material financial downgrading of its assets.
- BBGI's near total reliance on availability-based revenues – rather than on demand-based revenues – has proven to be very prudent, as various write-offs from other IICs during the COVID-19 years have demonstrated.
- On the cost front, due primarily to its policy of internal management, BBGI's cost fees – at 0.86% – are the lowest in the IIC sector. The latest reported cost ratios for HICL and INPP were 1.06% and 1.18%, respectively.
- The lack of energy generation assets and the power price risk that they entail (not applicable to the recent John Hart acquisition in Canada). TRIG wrote down its energy asset portfolio by more than £123m to reflect lower power prices in 2020.

BBGI's TSR record over an extended period is ahead of all other IICs, except 3i Infrastructure, and compares very favourably with that of the two leading REIFs, Greencoat UK Wind and TRIG.

Total shareholder returns over the long term

IIC/REIF	Average annual TSR since IPO Date
3i Infrastructure	12.4% (2007)
BBGI	10.4% (2011)
GCP Infrastructure	7.6% (Est.) (2010)
Greencoat UK Wind,	11.0% (Est.) (2013)
HICL	8.9% (2006)
INPP	8.5% (2006)
Sequoia Economic Infrastructure	7.2% (Est.) (2015)
TRIG	9.2% (2013)

Source: Company and fund statements

Valuation

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

Discount rate is the major factor in determining NAV

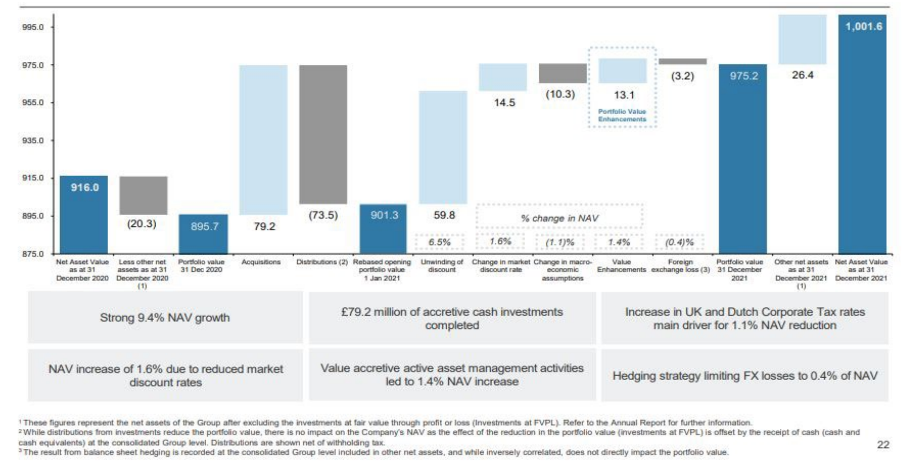
Irrespective of its investment level, there are many other elements that determine the NAV for IICs such as BBGI, with the chosen discount rate being the major factor.

NAV movements in 2021

In its 2021 full-year results, BBGI confirmed that its NAV had risen from £916m at end-20 to £1,002m; in terms of NAV per share, the figures were 137.8p per share and 140.7p per share, respectively.

The chart below highlights the NAV adjustments that occurred between 31 December 2020 and 31 December 2021.

BBGI – portfolio value movement (£m)



Source: BBGI

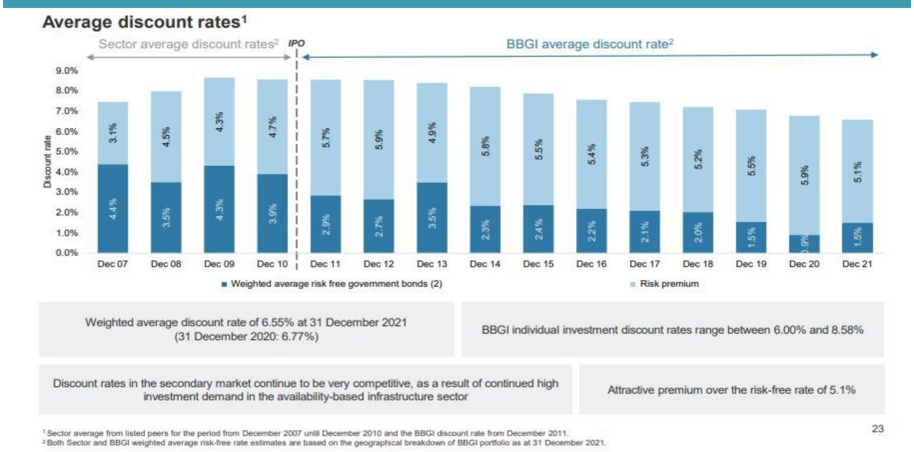
Three particular features merit comment:

- During 2021, BBGI's acquisitions amounted to more than £79m, while NAV growth was 9.4% over the period.
- The weighted average discount rate of 6.55% 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 less than 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.
- The high premium over the risk-free rate, albeit reduced to 5.1% from the December 2020 figure of 5.9%, still endures.

Still sizeable 5.1% premium over risk-free rate currently

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

BBGI – discount rates vs. risk-free rates

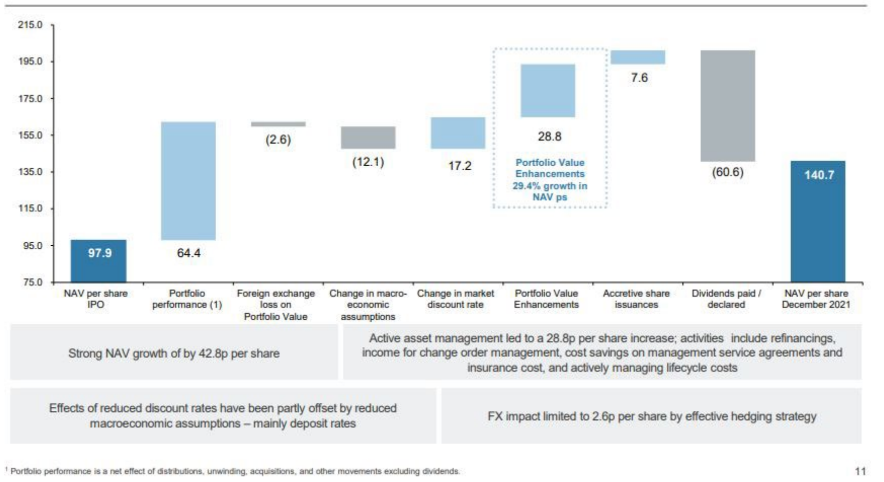


Source: BBGI

Lower discount rates and asset value enhancement have driven NAV rise over the decade

Since its IPO in 2011, BBGI has increased its NAV from 97.9p per share to 140.7p per share, due partly to lower discount rates and asset value enhancements. As the chart below shows, these two factors – the former outside management's direct control and the latter very much within it – have been pivotal in increasing BBGI's NAV.

NAV per share movement (p) – NAV up by 43.7% since 2011 IPO



Source: BBGI

In its recognition of the pivotal valuation role of its chosen discount rate – currently 6.55% – 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 7.55% would cut BBGI's NAV by ca.£78m, equivalent to 7.8%. On the upside, a 1% cut in the discount rate would yield a benefit of ca.£90m, equivalent to a ca.9% rise in BBGI's NAV. Clearly, these are large swings.

1% higher inflation and direct impact sensitivity

Given the widespread concerns about inflation, which has surged of late to over 6% in the UK and to over 5% in Canada, BBGI has sought to give a balanced view – accepting that higher inflation will have other direct consequences – of the impact of a 1% rise in inflation and its follow-through effects on both deposit rates and discount rates. BBGI has calculated a 2.3% benefit to its NAV from this scenario.

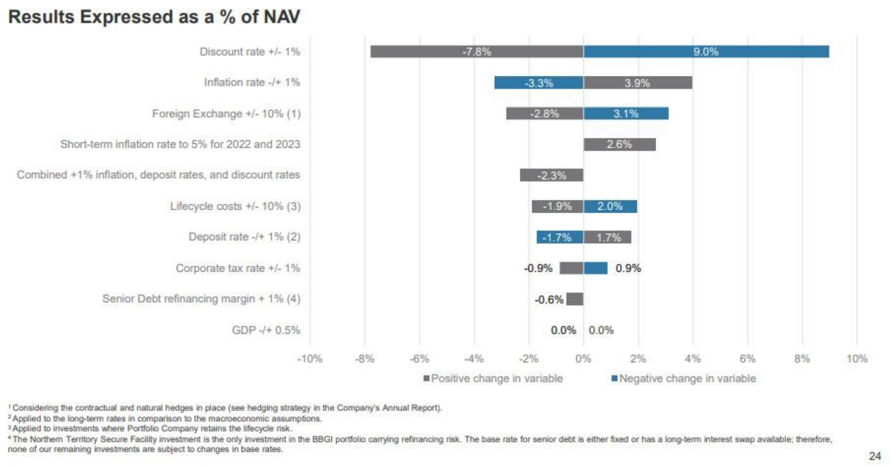
Buffer in the risk-free rate

Of course, if inflation were to persist at higher levels, say at above 6%, BBGI would certainly stand to benefit considerably given its 0.44% inflation link figure. Nonetheless, its discount rate could rise, to the detriment of its underlying valuation, under such a scenario. In fact, there is a buffer in the risk-free rate of – arguably – up to 2% before any significant impact on the discount rate could be expected.

Key sensitivities

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.£2bn between 2022 and the end of 2050. Few quoted FTSE 250 stocks can offer such secure and long-term cashflow streams.

In assessing the value of this projected cashflow until 2051, our DCF model, based on discount rates approximating to those used by BBGI, yields similar valuations.

Long-term sector NAV out-turns

Elsewhere in the IIC and REIF sectors, NAV per share out-turns over the past five years have varied, with the most pronounced increase reported by the higher-risk 3i Infrastructure, whose figures stand alone. Both GCP infrastructure and Sequoia Economic Infrastructure have reported disappointing NAV growth figures over the five-year period. The table below shows the relative performances and includes those of the leading REIFs, Greencoat UK Wind and TRIG.

NAV per share data over five years

	Latest NAV per share (p)	Date	NAV per share (p)	Latest NAV per share (p)
3i	291.2	Jun'21	165.7	+75.7%
BBGI	140.7	Dec'21	126.1	+11.6%
GCP Infrastructure	107.2	Dec'21	109.7	-2.2%
Greencoat UK Wind	133.5	Dec'21	108.6	+22.9%
HICL	155.4	Sep'21	145.7	+6.7%
INPP	148.2	Dec'21	142.2	+4.2%
Sequoia Economic Infrastructure	101.6	Dec'21	102.9	-1.3%
TRIG	119.3	Dec'21	100.1	+19.2%

Source: Company accounts, Hardman & Co Research

Dividends

COVID-19 impact on dividends

While the impact of COVID-19 has been overwhelmingly at the health level, its impact on the financial markets should not be discounted, although share prices generally have recovered from the chasm into which they plunged during March 2020.

The 67% Shell shocker – its first dividend cut since WW2

Nevertheless, during the COVID-19 lockdown period, various announcements on dividend policies have proven to be long-lasting. While many banks either cut or suspended their dividends for a period, it was the announcement by Shell to reduce its dividend by 67% that had the most profound implications – previously, Shell had not cut its dividend since WW2.

HICL's becalmed dividend

In the IIC and REIF sectors, dividend cuts have been few, although there have been many instances of held dividends, most notably the policy of HICL, which has held its dividend at the same level for 2020/21 and 2021/22. It plans to do likewise for 2022/23.

Greencoat UK Wind follows the RPI

Within the IIC and REIF sectors, many dividend increases have been distinctly modest. However, there have been exceptions, the most notable of which has been 3i Infrastructure's dividend policy – a planned increase of 6.6% for 2021/22 - and Greencoat UK Wind's intention to raise its dividend from 7.18p per share in 2021 to 7.72p per share in 2022, an increase of 7.5%, as it seeks to implement its RPI-determined dividend policy.

Real vs. nominal dividend increases

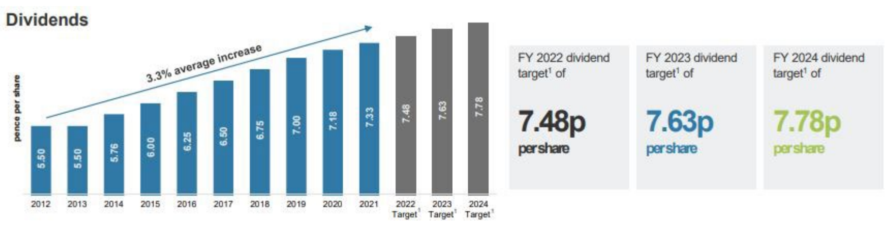
Of course, in today's inflation-driven environment, nominal dividend increases of, say 3% per year, are cuts in real terms given that UK inflation now exceeds 6% and, in the short term, is set to go even higher. To what extent the inflation surge of late is merely a "blip" or more ingrained remains debatable.

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, 2012-24E



Source: BBGI

Target dividend of 7.48p for 2022E, rising to 7.78p by 2024E

In respect of 2021, BBGI is paying a full-year dividend of 7.33p per share, an increase on the 2020 payment of 2.1%. The cash dividend cover at December 2021 was 1.31x, which is higher than many other IICs and REIFs. For 2022E, BBGI has confirmed a target of 7.48p per share, of 7.63p per share in 2023E and, for the first time, of 7.78p per share in 2024E.

Dividends elsewhere in the sector

The dividend read-across

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

- 3i Infrastructure plans to raise its dividend to 10.45p per share for 2021/22, an increase of 6.6% compared with 2020/21.

- HICL is targeting the same dividend payment – 8.25p per share – for 2022/23 as was paid for both 2020/21 and 2021/22. Previously, HICL had intended to deliver growing dividends.
- Greencoat UK Wind is seeking to pay a dividend of 7.72p per share for 2022, an increase of 7.5% over its 2021 payment of 7.18p per share.
- On the back of a falling NAV, GCP Infrastructure's dividend was cut from 7.6p per share, which had been paid for many years, to 7p per share in 2020; it has remained unchanged subsequently.
- After various bad loans, Sequoia Economic Infrastructure is holding its dividend at 6.25p and has no plans to increase it for the foreseeable future.

Key IIC and REIF data

The table below shows our prospective dividend forecasts for the leading IICs. Also included, for comparative purposes, are the two most highly capitalised REIFs, Greencoat UK Wind and TRIG.

Investment data for IICs and REIFs

	Share price (p)	Shares in issue (m)	Market cap (£m)	Year-end	Prosp. DPS (p)	Prosp. yield
3i Infrastructure	351	891	3,129	Mar	10.45	3.0%
BBGI	174	712	1,239	Dec	7.48	4.3%
GCP Infrastructure	111	884	981	Sep	7.00	6.3%
Greencoat UK Wind	155	2,317	3,591	Dec	7.72	5.0%
HICL	180	1,940	3,492	Mar	8.25	4.6%
INPP	174	1,710	2,975	Dec	7.74	4.4%
Sequoia Economic Infrastructure	103	1,770	1,891	Mar	6.25	6.1%
TRIG	135	2,480	3,348	Dec	6.84	5.1%
			20,646			

Share prices as at 5/4/2022; Source: Company accounts, Hardman & Co Research

Yield correlation with dividend growth

The yields vary somewhat across the six IICs and the two largest REIFs, reflecting, in part, the changed dividend outlook for individual stocks such as HICL. The average yield for this octet is currently ca.5%.

Management

Small – and successful – team

BBGI has a small, but highly successful, management team, as the 10.4% annual increase in TSR since its 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.

Management board

The responsibilities of the management board

The management board at BBGI comprises Duncan Ball, Frank Schramm and Michael Denny. It is in charge of the management of the company and its representation vis-à-vis third parties (e.g. the entry into agreements on behalf of the company). Its principal responsibilities lie in all operational management activities of the group, including the discretionary investment of the company's funds, as well as setting and implementing the overall strategy of the group. The management board is ultimately responsible for implementing risk management and monitoring operational risk, and the measures related to risk.

The key individuals at BBGI are:

Duncan Ball

Duncan has been a co-CEO of BBGI since its IPO in 2011. He is responsible for the company's overall strategy and management. Over a 30-year period, he has worked in investment banking and in the infrastructure sector, as well as 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. He is responsible for the company's overall strategy and management. 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.

Michael Denny

Michael is the CFO of BBGI, having joined the company shortly after its IPO in 2011. He has built up ca.20 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.

Supervisory board

The supervisory board consists solely of the independent Non-Executive Directors. Its key task is to provide oversight to BBGI's operations in terms of both management and investment policy.

Sarah Whitney

Sarah is the Chair of the supervisory board. Previously, she was a 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.

Three other individuals sit on this board, namely:

Howard Myles

As a stockbroker and corporate financier, Howard has spent many decades in the City of London, 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, and he will retire as such at the next AGM.

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.

Chris Waples

Chris has spent many decades working in the infrastructure sector, and he joined John Laing in 2007. He has also held senior managerial roles at Amey, ScottishPower and Blue Circle.

Two new nominations

It should be noted that BBGI has recently confirmed that two individuals have been nominated for election as Non-Executive Directors for the supervisory board; they are:

- *June Aitken*, who has held senior roles at HSBC and, prior to that, at UBS; and
- *Andrew Sykes*, who was Chairman of Smith and Williamson between 2013 and 2020. He was also Chairman of SVG Capital between 2012 and 2017. Previously, he spent 26 years at Schroders.

ESG

ESG remains a BBGI priority

Despite some publicly expressed views that issues such as national defence and the security of energy supplies should be accorded a higher priority by leading institutional investors and major corporates, partly at the expense of ESG matters, BBGI's management team remains determined to meet its ESG responsibilities.

Two pivotal ESG initiatives – the social impact and its part in investment decisions

In recent years, BBGI has adjusted its ESG strategy to reflect changing circumstances. Two key initiatives stand out:

- BBGI focuses on the social purpose and outcomes of its various activities, applying most directly to its investment in the health and education sectors; and
- it has adopted a policy to "integrate ESG into its investment cycle" – a key initiative that few other companies openly espouse.

In recognition of its ESG commitment, BBGI 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.* A new report is due to be published shortly.

The 2021 record

With respect to 2021, BBGI – as a responsible investor in social infrastructure – set out the highlights of this policy, which include the following commitments and initiatives.

BBGI:

- has been a signatory of the UN Principles of Responsible Investment since 2019, and is rated in the A category;
- is committed to supporting the goal of net zero greenhouse gas emissions by 2050;
- has set a net zero target for its corporate and financed emissions;
- has introduced an enhanced ESG Best Practice Guide across all its portfolio companies;
- has undertaken a detailed climate risk assessment of its portfolio;
- has been certified as being carbon neutral for 2021;
- has reported all its Scope 1, 2 and 3 corporate emissions, which have been independently verified;
- has been compliant with the Sustainable Finance Disclosure Regulation since March 2021;
- has undertaken a comprehensive stakeholder materiality assessment involving employees, shareholders, clients and sub-contractors; and
- has introduced Key Performance Indicators (KPIs) to track major data movements and to ensure incremental progress in delivering positive stakeholder outcomes.

Wide-ranging ESG initiatives

By any standards, these are wide-ranging initiatives, 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.

Conclusion

Performed with distinction…

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 23.7% premium to NAV underlines its strengths, its conservative valuation, its attractive inflation linkage and its relative low risk in today's challenging investment environment.

…and avoided mishaps, unlike others

Unlike others in its peer group, BBGI has avoided valuation downgrades associated with the COVID-19 pandemic, owing mainly to its lack of demand-based, or other higher-risk investments.

Building on the strong foundations

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

Appendix

Reproduced below is BBGI's statement of financial position, which formed a core part of its full-year results that were published on 31 March 2022.

BBGI – statement of financial position at December 2021

£000	at 31/12/2020	at 31/12/2021
Assets		
Property and equipment	58	68
Investments at FV through profit or loss	895,674	975,225
Deferred tax assets	225	0
Derivative financial assets	12	0
Other non-current assets	0	1,417
Non-current assets	**895,969**	**976,710**
Trade and other receivables	1,631	1,024
Other current assets	2,164	761
Derivative financial assets	247	907
Cash and cash equivalents	20,532	26,862
Current assets	**24,574**	**29,554**
Total assets	**920,543**	**1,006,264**
Equity		
Share capital	770,942	847,858
Additional paid-in capital	1,517	1,833
Translation reserves	(378)	(8,809)
Retained earnings	143,759	159,661
Equity attributable to the owners of the company	**915,840**	**1,000,543**
Liabilities		
Derivative financial liabilities	218	429
Non-current liabilities	**218**	**429**
Loans and borrowings	177	246
Trade and other payables	2,716	2,956
Derivative financial liabilities	25	717
Tax liabilities	1,567	1,373
Current liabilities	**4,485**	**5,292**
Total liabilities	**4,703**	**5,721**
Total equity and liabilities	**920,543**	**1,006,264**
NAV attributable to the owners of the company	**915,840**	**1,000,543**
NAV per ordinary share (p)	**137.8**	**140.7**

Source: BBGI

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