Results analysis: BBGI Global Infrastructure

Last year's performance shows why BBGI's inflation linkage is so compelling...

Update
04 April 2023

- **BBGI Global Infrastructure (BBGI) delivered another strong year of growth in NAV and dividend terms in 2022, fuelled by its high-quality inflation linkage. The trust delivered an increase in NAV of 6.7% to £1,069.2 million and NAV per share of 6.6% to 149.9 pence per share over the course of the year to 31/12/2022. BBGI delivered a total NAV return of 11.8% for 2022. Annualised total NAV Returns since BBGI's IPO in 2011 to the end of 2022 were 9.1%.**

- **NAV returns were positive in large part due to the effects on NAV of increased inflation (+7.6%) and deposit rates (+1.6%). BBGI's investments in availability-style assets have strong inflation-linkage, which together with the benefit of higher deposit rates not only contributed substantially to returns last year but, these also more than offset the negative impact that a higher discount rate had to NAV (-2.8%).**

- **Cash flows were ahead of expectations for 2022, with strong dividend cover of 1.47x.**

- **Dividends for 2022 totalled 7.48p per share, in line with BBGI's target, compared to 7.33p in 2021. BBGI has paid a rising dividend every year since 2013, with an average annual increase of 3.1%. BBGI has also increased its dividend targets for 2023 and 2024 to 7.93p and 8.40p respectively, representing a 6% year-on-year increase, from a 2% increase previously. BBGI has also set a new dividend target of 8.57p for 2025. All of these are expected to be cash covered, with the trust's contracted inflation linkage the core driver of dividend increases.**

- **BBGI's share price declined by 10.8% last year but in our view that can be attributed largely to wider macroeconomic uncertainty and negative sentiment surrounding interest rate hikes, which put downward pressure on the share price. The fall in share price meant that BBGI's premium narrowed dramatically and its shares are now trading, relative to NAV, at close to their lowest level since launch in 2011.**

- **BBGI again maintained the lowest comparative ongoing charge in its UK listed peer group of 0.87% last year, largely as a result of its internally managed structure.**

Analysts:

David Kimberley
david.k@keplerpartners.com

- **BBGI co-CEOs, Duncan Ball and Frank Schramm said: "Our strong financial and operational performance over 2022 has reinforced the attractions of our asset class, particularly for investors looking for stable and predictable cash flows, dividend growth, and assets with high-quality inflation linkage and low correlation to other asset classes. We remain confident that our reputation as a specialist investor in low-risk global infrastructure, and our well-established relationships with key vendors, will allow us to continue to source attractive and accretive investment opportunities."**

Kepler View

BBGI Global Infrastructure (BBGI) has an impressive track record built upon investments in availability-style infrastructure assets, backed by highly creditworthy government counterparties and contracts with strong inflation linkage. BBGI's inflation-linked contracts mean its income rises in line with relevant indices, like the retail prices index (RPI) in the UK. And because income is not dependent on usage of those assets, there is no price elasticity of demand risk nor regulatory risk. We think this combination means BBGI provides some of the 'cleanest' exposure to inflation that investors are likely to find, with the commensurate protection against the phenomenon that provides.

Last year's results arguably validate that argument, with the trust seeing a £76.2m increase in NAV as a result of inflation, or a 7.6% increase in percentage terms. It's also worth noting that deposit rate hikes also played a role in increasing the NAV. BBGI's co-CEOs Frank Schramm and Duncan Ball had already argued that the 56 portfolio companies, which manage the infrastructure assets they invest in, would see an uplift from higher deposit rates due to their substantial cash holdings of c. £400 million. We saw this last year as revised deposit rate assumptions led to a 1.6% uplift to NAV. BBGI's discount rate increased from 6.6% to 6.9%, reflecting an equity risk premium of c. 3.1% to the risk free rate, which was more than offset by the increase in inflation and deposit rates.

Despite these positives, and like its peers and most investment trusts, BBGI's share price did decline last year. We think this is primarily due to interest rate hikes and a change in the risk premium. A key factor here is investors' view that an increase in the discount rate would lead to lower valuations, which is something we have seen in other sectors, such as commercial property. However, BBGI's results should work to allay these fears, given that the uplift the trust saw as a result of inflation and deposit rates more than offset the impact that a change in the market discount rate had. Moreover, the portfolio companies' debt is fixed and broadly aligned with the duration of each asset's portfolio life, mitigating the risk that higher interest rates pose from a borrowing perspective. At the end of 2022, BBGI maintained a long weighted average portfolio life of over 20 years.

The revised NAV means that BBGI is now trading at a small discount to NAV of approximately 0.6% as at 30/03/2023. Since IPO in 2011, the trust has typically traded at a double-digit premium, meaning today marks one of the lowest relative points at which the trust has traded since it was launched.

The trust looks interesting at this juncture as a result. Beyond its current valuation, BBGI has the lowest ongoing charge (0.87%) in its comparable peer group. On a 12 month forward basis, the trust is yielding 5.3%, with BBGI targeting a further 6% increase to dividends in 2024. The past couple of weeks have shown that inflation may be stickier than anticipated as well, making it even more prudent to have some exposure to assets that can provide protection against it.

Few funds can offer this in the way that BBGI can. While there are no guarantees that the trust can continue to perform as strongly as it has, investors looking for clear, direct linkage to inflation and to minimise their risk may find it appealing, particularly if they are looking to lock in yield at this point in time.

Click here to read the FY report on RNS

Click here to read our latest research on BBGI

Click here to add BBGI to your watchlist

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.