BROOKFIELD INFRASTRUCTURE PARTNERS LP

BIP **AUGUST 2015**

PORTLAND INVESTMENT COUNSEL™

Business Description:

Brookfield Infrastructure Partners (BIP) is one of the largest multinational owners and operators of long-life, high quality infrastructure assets. Its portfolio consists of ownership and operation of premier utilities, transport, energy and communications businesses in North and South America, Australia and Europe. As of May, 2015, the company had 10,800 km of transmission lines, 2.4 million electricity and gas connections, 30 ports, 3,200 km of toll roads, 9,100 km of rail operations, approximately 7,000 multi-purpose towers and active rooftop sites and 5,000 km of fibre backbone. BIP was established on May 21, 2007 by Brookfield Asset Management (BAM), and spun-off as a pure infrastructure company on January 31, 2008. Subsequent to the spin-off, BAM continues to share its industry expertise and proven investment strategies while maintaining approximately 28.5% interest in BIP. The company is headquartered in Bermuda with over 9,000 operating employees and investment professionals.

Overview and Investment Thesis:

- **Large scale with global presence.** BIP's portfolio consists of globally diversified premium quality infrastructure assets that provide essential products and services. In Australia, the company's regulated port terminal is one of the world's largest export terminals, accounting for approximately 20% of global seaborne metallurgical coal exports and 7% of total global seaborne coal exports. In South America, its operations constitute the backbone of the high-voltage transmission system in Chile, serving 98% of the population of the country. In Europe, the firm operates as one of the largest port service, natural gas and electricity connections providers in the U.K. In its communications infrastructure segment, BIP owns approximately 7,000 multi-purpose towers and 5,000 km of fibre backbone located in France. Over the past five years, BIP has been continually expanding its global business by investing an average of US$1 billion per year on an acquisition basis.

- **Stable cash flow with strong growth.** As of May 2015, approximately 90% of BIP's cash flow is supported by regulated or contractual revenues, while 70% is indexed to inflation and 60% is considered having no exposure to volume risk. Since 2009, funds from operations per unit and distribution growth achieved compounded annual growth rates of 23% and 12% respectively. To continue its future growth, the firm has about $480 million of capital to be deployed into rate base in the utilities segment, while over $680 million of growth capital will be allocated in the following two to three years in the transportation segment. Given the strong organic growth prospects and incremental returns from new investments, BIP's management team is targeting a long-term distribution growth of 5% to 9% on an annual basis.

- **High quality assets.** BIP's asset portfolio contains all categories of mainstream infrastructure, including electrical utilities, toll roads, ports, railroads and natural gas pipelines. The company's North American electricity transmission operations consists of approximately 560 kilometers of 44 kilovolt ("kV") to 230 kV transmission lines in Ontario and a 39 kilometer, 330 MW high voltage direct current submarine cable in New York. Its Australian rail operation possesses the only freight rail network in the southwest region of Western Australia providing access to the region's five government-owned ports. The firm owns toll roads operations used in transportation of goods in some states of Brazil, which states collectively account for approximately 65% of the nation's GDP (Gross Domestic Product). BIP's North American port operations located in the ports of Los Angeles and Oakland are the first and fifth largest container port markets in North America respectively. These ports are in close proximity to irreplaceable, land-side infrastructure for intermodal and transloading services. BIP's 71% of ownership interest in the Dalrymple Bay Coal Terminal (DBCT) has been one of the company's crown jewel over the past few years. The port facility provides a vital link between the central Bowen Basin region of Queensland Australia, one of the world's high quality, low cost and prolific series of coal deposits, and the export market. Given its unique position, the regulated terminal has 85 mtpa (metric tons per annum) of coal handling capacity and handles almost one fifth of the global seaborne metallurgical coal exports.

- **Substantial growth opportunities.** An important part of BIP's growth strategy involves identifying and taking advantage of organic growth opportunities within the scope of its existing business. Over the past 30 years, the capacity of BIP's regulated port terminal has expanded from 15 mtpa to 85 mtpa to meet ongoing customer demand. We believe the potential to further expand exists, as its operation is likely to grow to facilitate future expansion of mining companies in the Bowen Basin. Growth opportunities in UK are driven by new gas and electricity connections, as well as through leveraging and cross selling certain bundled service offerings. In South America, BIP's regulated distribution operations has a grandfathered operating license which allows it to expand into the generation, transmission, and retail sectors. In North America, its port operations are going through a significant modernization effort. In Los Angeles, it is expected to approximately double the capacity and enhance efficiency. Upon completion, BIP's port facilities in Los Angeles will become one of the most automated terminals on the continent. On June 30 2015, the company announced its intention to acquire the entire ownership of Asciano Limited, a leading provider of critical logistics services in Australia. The tender offer is worth approximately US$9.26 billion which would be one of Asia's largest takeovers in 2015. We believe that Asciano's existing national network of port and rail assets will provide BIP with competitive and unique service offerings in Australian interstate supply chains.

- **Relationship with BAM.** An integral part of BIP's acquisition strategy is to have the opportunity to participate with institutional investors in BAM sponsored consortiums. Through its association with BAM, BIP has been benefiting from BAM's substantial liquidity and strong relationships with banks and institutional investors, which allowed BIP to participate in attractive investment opportunities that it may not have been able to execute on a stand-alone basis.

- **Full cycle investment strategy.** As one of the very few pure-play, publicly traded infrastructure vehicles, BIP possess one of the most unique investment strategies. Rather than issuing equity to fund the acquisitions of new assets, the firm made use of a capital recycling strategy throughout the investment cycle, which involves the selling of mature and low growth assets.

- **Continuity of experienced management teams.** The management team is currently led by Sam Pollock, who has 25 years of experience in the industry, including 20 years at Brookfield. Since 2006, Sam has led Brookfield's expansion into the infrastructure business where he was responsible for the formulation and execution of the operating and investment strategy. Bahir Manios, who currently holds the CFO position, has 13 years of experience in the industry and 10 years at Brookfield.

Industry Growth Drivers/Trends: (Industry: Infrastructure/Utilities):

- **Investment needs for aging infrastructure.** As demand for infrastructure and need for modernization grows, more investments are required to satisfy the increasing pace of economic developments. BIP has been increasing its investments in projects that are likely to benefit from this trend. For example, its Texas transmission project completed in 2014 is believed to offer further opportunities to grow the company's rate base. We believe the combination of the global economic recovery and aging infrastructure around the globe is likely to stimulate demand for more infrastructure investments.

- **Growing infrastructure need in emerging markets.** Infrastructure investment in emerging markets such as Latin America is on the rise, as the region continues laying solid foundation for future economic growth. Countries including Brazil, Columbia and Mexico have all proposed national infrastructure plans to stimulate further investment.
- **Increasing regulatory framework.** Countries around the world, developed or emerging, are taking steps in addressing issues related to carbon emission. Regulators are encouraging a shift towards cleaner, renewable electricity generation. Ontario has adopted a very aggressive Renewable Portfolio standard through the passage of Ontario Bill 150. The regulation requires the decommissioning of existing coal plants and replacement with renewable and clean sources of power. The majority of new generation facilities that will be developed are far from the transmission grid. Therefore, expansions of the electricity transmission system will be required to connect the new plants to the existing grid. As an incumbent utility, we believe BIP's Ontario electricity transmission system is in a favorable position in competing for those projects.
- **Underlying global economic trends.** While global economic growth has decelerated, Central Banks around the world are expected to continue to broaden their Monetary stimulus to enhance global economic growth.
- **Growth in data traffic.** With the rising usage of smart devices, videos and apps, data traffic is expected to grow exponentially worldwide. According to Cisco, mobile data traffic in Europe (Central and Eastern) will have a CAGR (Compounded Annual Growth Rate) of approximately 71% from 2014 to 2019.

Competitive Advantages:

- **Natural Monopolies:** BIP's Australian regulated terminal accounts for approximately 20% of global seaborne metallurgical coal exports and 7% of total global seaborne coal exports. Its South American electricity transmission operations constitute the backbone of the high-voltage transmission system in Chile, serving 98% of the population of the country. Its Australian rail operations own 5100 kilometers of track and related infrastructure, while serving as the only freight rail network in the southwest region of Western Australia.
- **Stable financial situation:** 43% of the cash flows are underpinned by contractual arrangements and 47% are regulated, which are supported by take-or-pay contracts delivering stable cash flows. This has built the foundation for BIP to undertake additional acquisitions to compete with its peers.
- **Connection with BAM:** BIP is one of BAM's publicly listed property entities. It benefits from BAM's global presence, operating experience, execution capabilities and relationships.

Competitors:

- **Utilities:** AES Corp, Pinnacle West Capital Corp.
- **Transport:** Lindsay Australia Ltd, Asciano Ltd, Cosan Logistica SA.
- **Energy:** Union Gas Ltd, Pepco Holdings Inc, CenterPoint Energy, Inc.

Customers:

- Given the breadth and depth of the company's diversified portfolios of businesses, there is no significant exposure to any single customer. In addition, approximately 90% of the firm's cash flow is supported by regulated and contractual arrangements.

Barriers to Entry:

- **Natural monopoly:** Many of existing firm's assets are located in vital global market gateways, which make it difficult for entry firms to replicate its portfolio. For instance, BIP's regulated terminal in Australia provides a vital link between one of the world's high quality, low cost and prolific series of coal deposits and the export market.
- **Capital intensive/Economies of scale:** In order to compete in sectors that involve the transmission, distribution and storage of goods and energy, a start-up firm would need to spend significant amount of up-front outlays for laying out the infrastructure. A long established track record of successful deal execution is likely to help larger companies to achieve economies of scale, where it would be much more difficult for a new firm to duplicate.
- **Competitive bidding/Regulation:** To lay out the infrastructure in a particular geographic region is subject to regulatory approval. This is likely to result in a competitive bidding process emphasizing the operators' technical expertise and market knowledge.

Officers and Directors:

- Chairman of the Board, Derek Pannell; Chief Executive Officer, Samuel Pollock; Chief Financial Officer, Bahir Manios; Director, Jeffrey Blidner; Director, John Fees; Senior Vice President, Tracey Wise.

Corporate Governance:

- **9 member board** – of which 7 are considered independent directors, while 2 others are former managing partners of the Brookfield family enterprise, Derek Pannell and Jeffrey Blidner.
- The BIP General Partner has sole responsibility and authority for the central management and control of the partnership, which is exercised through its board of directors.
- The nominating and governance committee is required to consist of a majority of independent directors and not more than 50% of the nominating and corporate governance committee members may be directors who are residents of any one jurisdiction.
- BIP pays a quarterly based management fee to the appointed Brookfield service providers equal to 0.3125% of the market value of the partnership. On an annualized basis, it accounts for approximately 18.35% of the company's net operating income.

Ownership:

- Brookfield Asset Management Inc. 28.1%, Other Brookfield Asset Management related entities (Partners Limited) 29.2%, 1832 Asset Management, L.P. 6.33%, ClearBridge Investments, LLC 5.99% and TD Asset Management Inc. 3.71%.

Capital Allocation/Uses:

- BIP generated $724 million of funds from operations (FFO) in 2014. Compared to fiscal year 2010, the company's FFO had a compounded annual growth rate (CAGR) of nearly 30%. The dramatic increase in FFO is driven by inflationary prices increases, volume upside from GDP growth and cash flows reinvested. The management targets a long term growth in FFO of 10% per annum.
- In 2014, the company used $661 million of growth capital expenditure to fund its expansion. This represents a 21% year over year increase compared to fiscal year 2013. BIP plans to fund recurring growth capital with cash flow generated through internal operations.
- The company has demonstrated its ability in establishing a robust credit profile, as its debt is well supported by premier quality assets and the diverse business segments. As of May 2015, BIP's interest coverage ratio is more than 20 times

and net debt to EBITDA (Earnings before Interest and Tax, Depreciation and Amortization) is at 5.8 times.

- BIP has also improved its financial position through significant liquidity, well laddered debt maturity profile and modest currency exposure. The firm has $1.4 billion committed corporate credit facility for new investments and working capital and $0.9 billion of corporate cash and financial assets available for deployment in accretive acquisitions. The company's debt has an average term of 9 years with no material near-term maturities following the completion of recent financings. Net debt to capitalization ratio is currently standing at 40%. The firm also implemented a strategy to hedge approximately 75% of expected FFO generated in foreign currencies.
- BIP currently has a corporate rating of BBB+ from Standard&Poor, highlighting its successful growth opportunities and ability to support stable cash flows going forward.
- Throughout the past few years, BIP has shown its ability to access capital in challenging markets. The firm has raised $3.5 billion of equity over the past five years and issued approximately $2 billion corporate bonds throughout the past 10 years.
- BIP has established a good track record of delivering FFO per unit and distribution growth over the past few years. The company's FFO per unit and distribution had a CAGR of 23% and 12%, respectively, between 2009 and 2015. The current distribution yields 4.8%. The management has indicated that the targeting long-term distribution growth will be between 5% to 9%.

Financial Statement Summary:

US$ MM except per share items which is in US$, years ended Dec 31	2014	2013	2012	2011	2010
Income Statement					
Total Revenue	1,924	1,826	1,524	1,115	634
EBITDA	963	893	665	494	186
Earnings per Share (Diluted)	0.73	1.10	(0.93)	(1.36)	4.48
Dividend per Share	1.92	1.72	1.72	1.32	1.10
Balance Sheet					
Total Debt	6,946	6,241	7,998	4,905	4,624
Total Equity	3,557	3,778	3,659	3,073	3,371
Total Debt: Total Equity	195.28%	165.19%	218.58%	159.62%	137.17%
Cash Flow Statement					
Operating Cash Flow	691	694	635	340	78

Key Ratios and Figures:

Y/E December 31	2014	2013	2012	2011	2010
EBITDA Margin	50.10%	48.90%	43.60%	44.30%	29.30%
Current Ratio	1.90	2.12	0.58	0.91	0.81
Return on Invested Capital	1.90%	2.20%	0.80%	1.60%	6.30%
Fixed Asset Turnover	0.24	0.19	0.17	0.17	0.13

Business Segments (Years ended December 31):

	Adjusted EBITDA (%)		Funds from Operation (%)		Total Assets (%)	
Business Sectors Mix	2014	2013	2014	2013	2014	2013
Utilities	45.45%	49.28%	50.69%	55.28%	41.66%	42.79%
Transport	52.45%	44.77%	54.14%	47.80%	43.09%	43.00%
Energy	12.17%	12.34%	9.39%	10.26%	15.74%	14.63%
Corporate and other	-10.07%	-6.40%	-14.23%	-13.34%	-0.49%	-0.41%

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Geographic Segments (Years ended December 31):

	Revenues (%)		Non-current Assets (%)	
Geographic Mix	**2014**	**2013**	**2014**	**2013**
Australia	41.79%	44.80%	34.46%	37.29%
United Kingdom	32.28%	30.45%	26.19%	26.15%
Colombia	10.08%	10.35%	4.85%	5.15%
Canada	6.55%	7.17%	6.03%	6.49%
Chile	5.46%	5.91%	12.26%	13.87%
United States of America	3.85%	1.31%	6.37%	4.52%
Brazil	0.00%	0.00%	8.74%	5.36%
Europe	0.00%	0.00%	1.10%	1.17%

Sourced from Thomson Reuters and Company Reports

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