QC INVESTMENT MEMO

To:	Queen's Capital Executive Board
From:	Hans Shen
Date:	January 17, 2016
Re:	**Brookfield Infrastructure Partners (TSX: BIP.UN) [DRAFT 1]**

COMPANY PROFILE

Industry:	Electric Utilities
Main Asset(s):	2.4 million E&NG Connection
Market Capitalization	$7.5 B
Debt:	$0.59 B
Cash:	$1.1B
Enterprise Value:	$12.0 B
NTM(E) Revenue:	$4744.97 mm
NTM(E) EBITDA:	$1860.77 mm
NTM(E) FCF:	-

INVESTMENT PROFILE

Current (Proposed) Investment Size:	3-5% of portfolio
Position Cost Basis:	Hold
Current Share Price:	CAD $46.85
Life to Date Profit (Loss):	$29.75
Life to Date Percentage Return:	265%
Base Case Valuation:	$53.48
Downside Case Valuation:	$50.70
Upside Case Valuation:	$55.48

COMPANY DESCRIPTION

- Brookfield Infrastructure Partners L.P. (BIP) owns and operates utility, transport, and energy businesses.
- BIP owns and operates a diversified portfolio of infrastructure assets that generate stable cash flows with 90% regulated or contracted, 70% indexed to inflation and 60% with no volume risk.
- The company's Utilities segment operates a port facility that exports metallurgical and thermal coal mined in the central Bowen Basin region of Queensland, Australia; approximately 10,800 kilometers of transmission lines in North and South America; and approximately 2.4 million electricity and natural gas connections in the United Kingdom and Colombia.
- Its Transport segment provides transportation, storage, and handling services for freight, bulk commodities, and passengers through a network of 5,100 kilometers of track in Southwestern Western Australia; approximately 4,800 kilometers of rail in South America; approximately 3,200 kilometers of motorways in Brazil and Chile; and 30 port terminals in North America, the United Kingdom, and Europe.
- The company's Energy segment offers energy transportation, distribution, and storage services through 14,800 kilometers of transmission pipelines; and 370 billion cubic feet of natural gas storage in the United States and Canada, as well as serves approximately 40,000 gas distribution customers in the United Kingdom.
- Brookfield Infrastructure Partners Limited serves as a general partner of Brookfield Infrastructure Partners L.P. The company was founded in 2007 and is based in Toronto, Canada.
- Position overview: The recent price action in Brookfield Infrastructure is at odds with the firm's largely regulated and highly resilient cash flows, growing secular demand for world-class infrastructure assets. Despite strong headwinds expected, BIP should emerge the storm healthier than its competitors.

VALUATION

Discounted Cash Flow Analysis (in US$ millions)	**Actuals**			**Estimates**				
Period Ending January 31	**2012A**	**2013A**	**2014A**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
Unlevered Free Cash Flow				1.035	1.035	1.1	1.1	1.1
EBIT	393.0	384.0	620.0	641.7	664.2	704.0	746.2	791.0
Depreciation & Amortization	380.0	329.0	230.0	238.1	246.4	261.2	276.8	293.4
Changes in Working Capital	69.0	1,215.0	(497.0)	262.3	326.8	30.7	206.6	188.0
Capital Expenditures	361.0	129.0	133.0	137.1	141.4	145.8	150.3	154.9
Taxes	117.9	115.2	186.0	192.5	199.2	211.2	223.9	237.3
Total Unlevered Free Cash Flow	**225.1**	**(746.2)**	**1,028.0**	**287.8**	**243.1**	**577.5**	**442.3**	**504.2**
Net Present Value Calulation								
Period				0.5	1.5	2.5	3.5	4.5
Discounted Cash Flow			6.57%	0.97	0.91	0.85	0.80	0.75
Total Net Present Value				**278.8**	**221.0**	**492.5**	**354.0**	**378.6**
Terminal Value								

Terminal Value

EBITDA Method	
Exit Year EBITDA	1,084.5
Multiple	13.0x
Terminal Value	14,113.0
Net Present Value	**10,265.9**
Perpetuity Method	
Unlevered Free Cash Flow	504.2
Growth Rate	3.5%
Terminal Value	14,405.5
Net Present Value	**10,478.7**

Discounted Cash Flow Total Valuation	EBITDA Method	Perpetuity Method		
Total of Present Value of Cash Flows	2,054.9	2,054.9		
Present Value of Terminal Value	10,265.9	10,478.7		
Total Enterprise Value	**12,320.8**	**12,533.6**		
Net Debt, Non-controlling interests, preferred securities	6,620.0	6,620.0		
Equity Value	**5,700.8**	**5,913.6**	**Exchange Rate**	
Share Count (millions)	150.3	**150.3**	USD	CAD
Estimated Equity Value per Share (CAD)	**$53.48**	**$55.48**	1	1.41

Cost of Capital		
Risk Free Rate	1.30%	**Debt YE 2012**
Market Risk Premium	11.29%	Stock Price
Beta	0.85	Shares Outstanding
Cost of Equity	10.90%	**Equity Value**
Cost of Debt	2.660%	
WACC	**6.57%**	

INVESTMENT THESIS

Thesis 1: Geographical Diversification and Stable Cash flows

BIP owns and operates a diversified portfolio of infrastructure assets that generate stable cash flows that are contracted or regulated over the long term. The cash flows are diversified across four continents and across operating segments with 90% regulated or contracted, 70% indexed to inflation and 60% with no volume risk. This decreases exposure to any particular asset class or geography. Despite expected headwinds in 2016, the portfolio of high quality assets combined with a well-diversified geographical location should reduce risk of extreme volatility.

Thesis 2: Favorable Growth Climate in Brazil with $200 Billion Government Injection into Economy

In Brazil, converging political and economic factors are creating a capital shortage and market dislocation. The government has announced plans to kick start the economy and inject up to another $200 billion in infrastructure, presenting considerable opportunities for BIP. Despite recent market volatility and economic challenges, Brazil remains a large, high growth market with strong competitive advantages in the production of many global commodities. It also has an emerging middle class with attractive demographics. This includes the ability to use its excess cash to acquire further distressed or undervalued assets from Brazilian companies that are struggling with significant debt burdens acquired from when they gorged themselves on debt during the boom years. These factors have seen it flag that it is targeting further acquisitions in Brazil with it set to deploy up to $450 million into two investments. This includes investing $200 million into a Brazilian toll road subsidiary and $250 million to purchase Brazilian construction company OAS' stake in Invepar a Brazilian operator of toll roads and airports.

Thesis 3: Consolidation of Global Shipping Network with Purchase of Asciano

On Aug. 17, 2015, together with its institutional partners, BIP entered into a binding agreement to acquire Asciano Limited (AIO.AX), a large-scale port and rail operator in Australia. The initial takeover price had an implied value of roughly US$9 billion, comprised of cash and stock. BIP proposed to take 55% of the acquisition with Brookfield sponsored and managed funds holding another ~23% stake in the company. This consolidation effectively more than doubles the existing capacity and is expected to increase BIP's annual Rail EBITDA to ~$655mm (~110% increase from current $310mm) and port EBITDA to ~$220 (160% increase from the current ~$85mm). In addition, the estimated contribution from AIO is expected to be immediately accretive to BIP, by increasing its AFFO/unit 7% from $2.88 to $3.07. In light of the Asciano transaction and other current initiatives, we expect distribution growth to be 11-13%, exceeding the top end of our 5 to 9% target range. The addition of Asciano's Above Rail operations completes a global network of shipping and rail facilities around the world, with additional synergies expected to emerge. The high quality container terminals combined with existing assets in North America and Europe completes the last piece for a global ports platform. Additional savings in efficiency is expected to result from the combined global port portfolio of assets by leveraging Asciano leading edge skills in container terminal automation.

Thesis 4: Future Acquisitions supported by global business development platform

To complement organic growth, BIP has also grown through acquisitions. BIP partnered with institutional investors and BAM to acquire assets, reducing financing requirements and securing access to BAM's technical expertise from its global footprint. It can also structure transactions to lower its cost of capital, increase returns and create agreements between Brookfield subsidiaries to realize the full value of assets. Access to the broader team at Brookfield gives BIP a leg up on competition by providing local expertise around the globe.

KEY INVESTMENT RISKS

RISK I	Description of Risk I: Investment into distressed assets in Brazil poses significant risks *Mitigating Factor to Risk I*: Although investment in critical infrastructure in distressed markets should pay off in the long run, it could introduce some short-term risk to its valuation based on market perception. BIP is focused on investing in toll roads and rail in Brazil (to complement existing investments), in addition to airports (including Sao Paulo's Guarulhos Airport) and transmission infrastructure. With a large population and economy that should grow at a rate above the global average, the investment should pay off in the long run.
RISK II	Description of Risk II: FX can introduce volatility to returns. Exposure to FX risk can be expensive to hedge *Mitigating Factor to Risk II:* BIP uses hedge contracts to reduce its exposure to foreign currencies. Based on its invested equity at the end of Q3 and its existing hedges, it has the greatest exposure to the Brazilian real and the Australian dollar. Based on BIP's disclosures, we estimated a headwind in Q3 of about 4% q/q from FX movements and roughly 14% y/y (in Q3, BIP reported an 11% headwind to FFO from currency movements y/y). With this exposure, its GAAP earnings show some volatility associated with the fluctuations of exchange rates. However, with asset-backed debt denominated in the currency associated with its cash flow, BIP has a natural hedge on currency fluctuations. In addition, its free cash flow can remain in country to fund growth initiatives.

KEY INVESTMENT STRENGTHS

STRENGTH I	Strong liquidity gives flexibility for acquisitions and reduces potential overhangs: Historically, BIP has had ample liquidity to pursue growth. Brookfield Infrastructure was swimming in approximately $3.3 bln of liquidity as at Sep-30-15. BIP has approximately $3 billion in liquidity to fund the Asciano acquisition and could access an additional $1 billion credit facility if the acquisition is successful. It has also created a debt repayment profile that reduces its near-term requirements. More than 65% of the debt will mature after 2019, which allows it to use cash for organic growth and acquisitions. In addition, BIP may have opportunities to refinance debt and take advantage of lower interest rates. Currently, BIP has a net debt to capitalization ratio of 39% and an average term of nine years on its remaining debt. BIP has continued to use interest rate swaps to minimize the floating rate and cash flow variability associated with debt. BIP's BBB+ investment grade rating is based on its geographic diversity, strong debt metrics, good quality assets and relationship with BAM.
STRENGTH II	Best organic growth prospects among the large cap stocks. BIP targets 5-9% per year growth in its distributions, with a 60-70% payout ratio. For 2016E, BIP forecasts an 11-13% growth in its distributions. Over the last six years, it has achieved an FFO/unit growth CAGR of 23% and a distribution/unit CAGR of 12%. Further growth should be achieved through organic development and acquisitions. It is highly likely that BIP can meet its annual distribution per unit growth organically through 2017E even in the face of China's cooling demand for commodities—particularly iron ore. Supporting our call are the commissioning of a healthy $1.3 bln capital backlog over that timeframe, inflation indexation across the partnership's world-class utilities platform, and the modest volume gains expected from its toll road and port businesses. The internal growth target of 10% isn't a pie-in-the-sky scenario; it extrapolates the low double-digit rate that BIP has averaged annually since its inception (by reinvesting anywhere from 30% to 40% of its FFO into existing operations).
STRENGTH III	Strong Financial Fundamentals: BIP has historically had a strong financial performance. Revenues totaled $1,924 million for the year ended December 31, 2014, representing an increase of $98 million, or 5%, compared to 2013. Approximately $47 million of the increase relates to acquisitions made in the U.S. district energy business over the past twelve months. Furthermore, BIP management has raised the target return to 12% to 15% per annum on the infrastructure assets measured over the long term. Currently 60-70% of FFO is paid out to investors, resulting in above shareholder benefit The Relative yield of the stock, defined by its yield of 6.5%, divided by average yield of dividend yielding stocks in the S&P 500 Index of 1.9% is 342.4%. This suggests the stock is undervalued in dividend yield terms.
STRENGTH IV	Energy sector holds enormous growth opportunities: The Energy segment produced $19 million in FFO in Q3, up 90% y/y, but still only 8% of the total for the group. Improvements came largely from new investments in District Energy systems in North America and higher volumes through its North American natural gas transmission system. In Q3, BIP secured a 20-year contract to move natural gas to an LNG project on the Gulf Coast. Over the next 18 months, BIP is looking for 25% EBITDA growth from this segment, driven by organic growth initiatives. The capital backlog of $103 million in the Energy segment consists of projects that will expand and upgrade systems in anticipation of volume growth which should take advantage of long-term take-or-pay contracts. Roughly $80 million of the capital should be allocated to District Energy systems ($60 million of that in Australia) and about $20 million to transmission, distribution and storage opportunities.

INDUSTRY DETAILS

Queen's Capital is bearish on the outlook of the Global and Canadian Energy & Utilities market. Low oil prices and inflationary pressures in Canada and Globally will continues to diminish investor sentiments and apply downward pressure on Canadian producers. However, the Energy & Utilities team will continue to look for attractive valuations in the market in the long run.

Source: Capital IQ, Bloomberg, Thomson ONE, Raymond James Ltd, National Bank, Seeking Alpha