Results analysis: BBGI Global Infrastructure

With strong operational and financial performance and interest rates stabilising, BBGI offers an attractive prospective real return...

Update
02 September 2024

- BBGI Global Infrastructure (BBGI) has released its interim results for the six months ended 30/06/2024. The net asset value (NAV) total return for the period was 2.4%. This return consisted of a dividend of 3.965p per share paid in April and was partially offset by a modest 0.3% decrease in NAV per share to 147.4p per share, which was largely due to the impact of net negative movements in the currency markets.

- Long-term returns remain strong. The annualised NAV total return per share since IPO has been 8.5%.

- A dividend of 4.2p per share was declared for the first half of 2024, which will be paid in October 2024. BBGI reaffirmed its 6% dividend growth target for 2024 and 2% dividend growth target for 2025.

- The dividend remains secure, both in the short and medium term. The cash dividend cover for H1 2024 was 1.47x and the FY 2024 cover is expected to be in the range of 1.3x to 1.4x. Based on current estimates, the portfolio could continue to generate a progressive dividend for the next 15 years, even if there are no further acquisitions.

- The group's globally diversified portfolio of concession and non-concession assets have a weighted average remaining life of 22.8 years, providing long-term sustainability to the cash flows.

- BBGI remains in strong financial and operational positions. There were no material lock-ups or default events during the period and net cash generated by the portfolio companies were ahead of projections. There is no structural gearing at the group level, no cash drawings on the revolving credit facility, and BBGI has net cash of £20.6 million.

- This gives it the chance to consider opportunities to enhance long-term shareholder value. A number of potential investment across various sectors and regions were considered in the period, but none were made as they did not meet BBGI's requirements.

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- Duncan Ball, CEO of BBGI, said: "Stabilising, and potentially reducing interest rates, combined with an ever-increasing demand for infrastructure investments, presents a long-term growth opportunity for BBGI. As governments worldwide navigate the challenges associated with the high levels of public debt and the growing need for new infrastructure projects and repairing and maintaining aging infrastructure, specialist investors like BBGI are well positioned to play a critical role. We will continue to maintain a disciplined and prudent approach to capital allocation and prioritise the most optimal use of cash based on maximum value accretion for all our stakeholders."

Kepler View

BBGI Global Infrastructure (BBGI) has reported robust performance, both operationally and financially. Net cash generation in the period was strong and, after successfully fully repaying its revolving credit facility by 2023, there is no debt at the trust level.

The globally diversified portfolio of 56 high-quality, 100% availability-style infrastructure assets sits at the low-risk end of the sector. We think that this, along with its conservative financial management have been major contributors to the consistent and resilient performance that it has delivered since IPO.

BBGI's steady, growing dividend record since it was launched in 2011 continues. The dividend growth shown in the full-year 2023 and full-year 2024 is testament to BBGI's stable, predictable cash flows with high-quality, contracted inflation linkage of 0.5%, the benefit of which BBGI was able to pass on to shareholders. The dividend yield remains attractive, at about 6.3% for the full-year 2024 and a forecast 6.4% for the full year 2025.

The results continue to show the benefit of being the only internally managed trust in the sector, with 100% of the board and 87% of BBGI employees owning shares, so the whole team is focused only on income growth and NAV growth, rather than growth in assets.

BBGI's weighted average discount rate is 7.3%. In simple terms, deducting the OCF leaves shareholders with a prospective NAV IRR of 6.4%. However, if you include the current share price discount to NAV narrowing to zero, this translates to a prospective share price IRR of 7.6%. Prior to the increasing interest rate environment, BBGI's share price traded at a premium to NAV.

The trust's discount is one of the lowest in its peer group, but remains relatively wide at 9.7% compared to its five-year average premium of 12.8%. In our view, with bond yields having potentially plateaued, this could be an interesting moment to consider BBGI's attractive prospective real returns.

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