

BBGI Global Infrastructure (BBGI)

06/09/2023

Results analysis from Kepler Trust Intelligence

NAV total returns for BBGI fell modestly by 1.4% in the first half of 2023. This was mainly due to foreign exchange movements and a change in the discount rate, itself largely caused by interest rate hikes in the UK impacting UK assets, which are 33% of BBGI's portfolio. Despite this small decline, the trust has delivered a strong track record of 8.8% annualised NAV total returns since IPO in 2011. At the end of the period, the shares traded on a 6.6% discount to NAV.

The negative valuation effects on the trust's NAV were partly mitigated by increased deposit and inflation rates. BBGI's proportional share of cash holdings in portfolio companies stood at approximately £385m as at 30/06/2023. Interest paid on these holdings has risen substantially over the past two years and averaged approximately 4.5% during the period. Changes in short and long-term deposit rate assumptions resulted in an increase to NAV of approximately 1.2%.

BBGI's discount rate increased by 0.3% to 7.2% during the period. The weighted average risk-free rate of the BBGI portfolio stayed flat during the period at 3.8%. As such, the trust's discount rate includes a 3.4% risk premium, arguably a conservative figure given the resilient availability-style assets the trust invests in and their high-quality inflation linkage.

BBGI Chair Sarah Whitney said: "As an internally-managed investment company, our leadership team's alignment of interest with our shareholders is clear. In this period of economic volatility, we will continue to be disciplined in our approach to capital allocation and will only consider transactions that are accretive to our shareholders. BBGI has not been immune to the uncertain market and economic backdrop that has impacted investor sentiment on almost all UK listed investment companies."

Kepler View

BBGI Global Infrastructure (BBGI) provides investors with access to a portfolio comprised solely of availability-style assets, backed by AAA/AA government and government-backed counterparties. These are public infrastructure assets that generate revenue as long as they are available for use, meaning they are not subject to the price elasticity of demand or the regulatory risks that demand and regulatory-based assets can be susceptible to. The contracts underpinning these investments have strong inflation linkage, which acts in a mechanical way, as cash flows increase in line with a relevant price index.

Despite seeing a small fall in its NAV, performance in the first half of this year in many ways demonstrated how resilient BBGI's portfolio can be. The large majority of the small NAV decline was attributable to changes in FX rates that were not fully covered by the trust's hedging strategy, and a 50bps increase in UK interest rates. With the UK currently representing about a third of the BBGI portfolio, this fed into a higher discount rate for the portfolio as a whole, which rose from 6.9% to 7.2% in the first half of the year. As much as investors may like them to, it is hard to see what BBGI could have done to offset these macroeconomic performance drivers.

With a weighted average risk-free rate of 3.8% across the BBGI portfolio, the trust's current discount rate means there is an implied risk premium of 3.4%. With the trust trading at an 11.6% discount to NAV as at 31/08/2023, we think the trust offers a compelling mix of downside protection and upside potential. The trust's high quality inflation linkage and AA/AAA counterparties offer strong protection against further volatility and unexpected inflation spikes. At the same time, if we are entering a more benign environment and have reached the end of the rate hiking cycle, the trust's high dividend yield may start to look more attractive again, potentially resulting in a tightening of the discount.

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