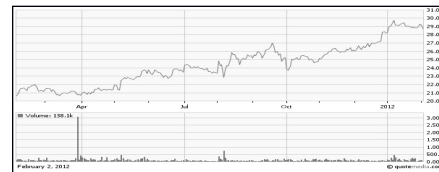


## Brookfield Infrastructure Partners LP (BIP.UN: TSX)

Recommendation: BUY

Current Price (February 7, 2012).....\$28.25

Fair Value.....\$30.94



## Global Infrastructure Company Generates BIG Returns in 2011 and Remains Well Positioned for Sustainable Growth in 2012

Industry: Global Infrastructure

Recommended: March 2011

Recommendation Price: \$21.62

Current Price: \$28.31

### INVESTMENT RECOMMENDATION

We are maintaining coverage on Brookfield Infrastructure Partners LP (BIP.UN: TSX) with a rating of BUY and an adjusted fair value assessment of \$30.94 per unit (previously \$27.30). Brookfield Infrastructure will remain in our Conservative-Risk portfolio.

### COMPANY DESCRIPTION

Brookfield Infrastructure Partners LP is a publicly traded limited partnership that was created for the purpose of investing in an international portfolio of long-life infrastructure assets which provide the LP with a stable stream of cash flow. Brookfield Infrastructure Partners LP indirectly owns its assets through a 59% ownership interest in Brookfield Infrastructure LP, a holding entity created in 2008 from the spin out of various infrastructure assets owned by Brookfield Asset Management, a publicly-traded company. Brookfield Asset Management currently maintains a 41% ownership interest in the holding entity and is the General Partner (manager) of Brookfield Infrastructure Partners LP (BIP.UN). Operations span three separate sectors: Utilities, Energy and Transportation, and Timber. Key assets include full or significant interests in: DBCT of Queensland, Australia, one of the world's largest coal export terminals, accounting for 20% of global seaborne metallurgical coal exports and 8% of global seaborne coal exports; 8,750 km of electrical transmission lines in North and South America (supplying 98% of Chile's electricity); 804,000 electricity and natural gas connections; 15,500 km of natural gas transmission lines, primarily in the United States; 5,100 km of railway tracks in Australia; 20 ports across the UK, Europe and China, handling 85 million tonnes of goods annually; and freehold timberlands located in the coastal region of British Columbia, Canada, and the Pacific Northwest region of the United States (predominantly comprised of Douglas-fir, whitewood, and cedar species). The company maintains a stable cash flow profile with 77% of funds from operations supported by regulated or contracted revenues. The objective of the company is to grow through continued investment both in their existing asset base as well as in new infrastructure assets that meet their criteria, and to provide unitholders with stable income distributions that will grow at a long-term rate of 3% to 7%.

### DISCUSSION

We have reviewed our assessment on Brookfield Infrastructure and elected to increase the fair value assessment price to \$30.94 per unit and maintain our BUY rating. Since the initial recommendation in March of 2011, the unit price on BIP.UN has appreciated 33.2%. While much of this growth has been supported by performance, the valuation relative to cash flow has become more expensive since the initial recommendation. However, when we look out over the next two to three years, we see a number of current potential opportunities that can support continued growth in cash flow and dividends. In 2011 alone BIP.UN declared two 13% distribution increases growing the annualized cash distribution from \$1.10 per unit to \$1.40 per unit, an increase of 27.7%. As of the end of Q3 2011, the company reported a capital project backlog of nearly \$1 billion, most of which they anticipate investing over the next 24 months. The Q3 results also indicated a payout ratio of 56% of funds from operations, well below the company's long-term target of 60% to 70%, and management indicated that the Board would be reviewing the distribution level in the first quarter of 2012. The company did announce the issuance of 28 million new units in October of 2011, bringing the total units outstanding to BIP.UN to 185 million. Proceeds of approximately \$150 million will be used to acquire interests in two Chilean toll roads and proceeds of approximately \$150 million will be used to fund growth capital expenditures at Brookfield Infrastructure's Australian railroad. The remaining proceeds will be used to pay down the corporate credit facility, which has been drawn over the past nine months to invest in Brookfield Infrastructure's Australian railroad and other organic growth initiatives. The higher share count may create a temporary drag on per unit distributable cash flow; however, we see a strong likelihood that the company will increase the dividend in Q1 of 2012. We expect the company to report their Q4 financial results sometime in late April.

### FORECAST AND FAIR VALUE ASSESSMENT

Based on our analysis we are forecasting that BIP.UN will generate approximately \$1.65 per unit in AFFO for 2011. This estimate puts the current valuation at approximately 17.5 times. At face value, the current valuation does not look particularly attractive; however, if we look forward over the next few years we start to see some value even at these levels. In 2012, we are expecting the company to generate AFFO of \$1.82 per unit. This reflects a price-to-forecasted AFFO multiple of 15.8 times. For our valuation we are applying a justified multiple of 17 times our 2012 forecasted AFFO, equating to a revised fair value assessment is \$30.94 per unit (previously \$27.30). Our forecasts incorporate only organic growth from their current backlog and do not account for any potential acquisitions completed in 2012.

TABLE 1: MARKET DATA

Symbol	BIP.UN
Yield	4.81%
Market Capitalization	\$5.36 Billion
Shares Outstanding (basic)	185,000,000
Shares Outstanding (diluted)	185,000,000
Average Daily Trading Volume	92,865

TABLE 2: QUARTERLY FINANCIAL DATA

	Q3 2011	Q3 2010	Change
Revenues	\$414,000,000	\$137,000,000	202.0%
Net Income	\$62,000,000	\$33,000,000	87.8%
EPS (Diluted)	\$0.38	\$0.31	22.5%
FFO	\$97,000,000	\$55,000,000	76.3%
FFO Per Share	\$0.59	\$0.52	13.4%

TABLE 3: 9 MONTH FINANCIAL DATA

	9 Months 2011	9 Months 2010	Change
Revenues	\$1,232,000,000	\$418,000,000	195.0%
Net Income	\$133,000,000	\$51,000,000	161.0%
EPS (Diluted)	\$0.84	\$0.48	75.0%
FFO	\$297,000,000	\$151,000,000	96.7%
FFO Per Share	\$1.89	\$1.42	33.1%

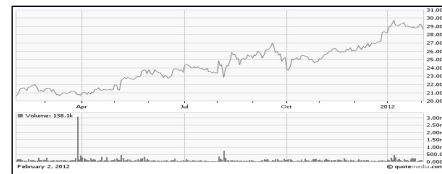
TABLE 4: FINANCIAL RATIOS

	TTM	Target Range
Price/Earnings	12.1	Less than 16.0
Price/Cash Flow	15.2	Less than 12.0
Debt/EBITDA	5.6	Less Than 6.0
Payout Ratio	73.4%	Less than 85.0%

**Brookfield Infrastructure Partners LP (BIP.UN: TSX)****Recommendation: BUY**

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**CONCLUSION**

We have reviewed our assessment on BIP.UN and elected to increase the fair value assessment price to \$30.94 per unit and maintain our BUY rating. The company has done a tremendous job operationally since our initial recommendation in March of 2011. We do believe that the valuation of the company has become more expensive since the original recommendation, but when we look out over the next few years we continue to see opportunities for the company to generate additional growth. The project backlog remains strong at approximately \$1.0 billion and there is always the potential upside of future acquisitions. The company remains well capitalized and the low payout ratio provides flexibility for continued distribution increases in 2012. Although we remain positive on BIP.UN, we do not expect the company to generate the same level of return in 2012 and that was generated in 2011. We view them as a conservative company that will continue to pay a significant and sustainable income yield and be able to capitalize on opportunities to growth that distribution incrementally over time.

We are maintaining coverage on Brookfield Infrastructure Partners LP (BIP.UN: TSX) with a rating of BUY and an adjusted fair value assessment of \$30.94 per unit (previously \$27.30). Brookfield Infrastructure will remain in our Conservative-Risk portfolio.

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**2008a; 2009e**

The term (a) refers to the actually results that a company has posted on its financial statements. The term (e) refers to analyst estimates of future results.

**Book value (BV)**

The total value of a company's assets, on its Balance Sheet, less any liabilities. Also referred to as Shareholder Equity. (The value of a company's assets, on its Balance Sheet, does not necessarily reflect the true value of assets).

**Cash Flow from Operations (CFO; Operating Cash Flow)**

The cash inflow that a company receives during a period, resulting from operating activities (does not include Cash Flow from Investing or Financing).

**Current ratio**

One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations (the ratio should be greater than 1).

**D/E: Debt-to-equity ratio**

A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets (a lower ratio indicates lower relative debt ratios).

**EBITDA**

Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

**EPS: Earnings per share**

A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

**Fair Value**

The price at which an analyst believes a company's stock should be priced. Although this value is based on intelligent analysis, it in no way is a representation of what the company's share price will be trading at given any period of time. The analysis used to determine Fair Value is based on numerous assumptions and uncertainties. Fair Value should be used only as a general guide to investing and should not be depended upon.

**FCFE: Free cash flow to equity**

Cash flow from operations less working capital requirements, sustaining capital expenditures and scheduled debt repayments. FCFE consists of cash inflows that are available to the shareholders of the company.

**Net working capital surplus (deficiency)**

A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets (as positive figure is a surplus, whereas a negative figure is a deficiency).

**P/B: Price-to-book ratio**

Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

**P/CF: Price-to-cash flow ratio**

Calculated as a company's current share price divided by its cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

**P/S: Price-to-sales ratio**

It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

**ROE: Return on equity**

A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

**Tangible Book Value (TBV)**

The total value of a company's assets, on its Balance Sheet, less any liabilities and intangible assets such as goodwill. Also referred to as Shareholder Equity. (Also true asset values likely differ from Balance Sheet Values, Tangible Book Value is generally considered a more accurate representation of value).

**Times Interest Earned**

The multiple of Net Income (before interest and taxes) to interest payments during the period. This assesses a company's ability and margin of safety, with respect to meeting its interest obligations (a higher number is more attractive).

**Yield**

The investment return resulting from income distributions. Calculated as the annual or annualized interest or dividend distribution, divided by the cost of the original investment.

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
Brookfield Infrastructure Partners LP	NO	NO	NO	NO	NO

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