Pump. Dump. Socialism.

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Brookfield's Dalrymple Bay Infrastructure Management (DBI AU, bond ticker BIP, BBB-) is seeking permission to socialise remediations costs for the 8X coal-terminal expansion to increase capacity of coal throughput by 15-20 million tonnes per annum.[1] The deadline for contribution of written submissions to the Queensland Competition Authority (QCA) is 4 June.[2]

- We opine that **it is disingenuous of Brookfield's vice-chair, Mark Carney, to head out in media arguing "Companies should pay more for pollution"[3] while Brookfield-controlled DBI is pursuing socialisation of clean-up costs for a major coal infrastructure expansion.**
- The key non-Queensland stakeholders in DBI are a Canadian infrastructure/PE company, a related Canadian insurance company[4], the Norwegian Oil fund and Vanguard, totalling 60% of all DBI ownership. **It is not entirely obvious to us that those investors are optimizing on the welfare of current and future Queensland generations in general or taxpayers in particular. The QCA should consider this asymmetric incentive (and potentially information) structure when reviewing DBI's socialisation proposal.**
- **The performance of DBI since the IPO in Dec 2020 has been -26% versus the relevant index** (see Figure 1 overleaf). **We sympathize with the retail investors in the IPO – it did look a bit like a "pump and dump" operation**. If retail investors believe that the socialization assumption was not clear enough in the prospectus (p. 144, section 7.1.8.2) or that they otherwise did not get a full disclosure of investment risks, our advice is to contact the relevant parties of the IPO joint leads Citigroup, Credit Suisse and Merrill-Lynch (Australian branches).
- **We would advise Norges Bank Investment Management to review its process around this costly investment.** As noted ahead of the IPO,[5] the valuation metrics were not compelling. On the ESG front, we opine that a capital allocation to the Dalrymple Bay IPO with its big thermal coal footprint must have been the antithesis to "seek[s] more ESG-driven divestments."[6]

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[1] This would make Dalrymple Bay second biggest coal export terminal in the world. For avoidance of doubt, Dalrymple Bay's thermal coal capacity of around 15-20Mtpa is also top-tier.
[2] "Application for price ruling— the 8X expansion", QCA website, accesses 2 Jun 2021. For a full review of the proposal, please refer to the excellent IEEFA report "Queensland Competition Authority Should Exit Dalrymple Bay Coal Terminal Pricing Regulation", IEEFA/Owen Evans, 10 May 2021.
[3] "Firm should pay more for pollution says UN special envoy on climate action[…]", CNBC, 31 May 2021.
[4] Fairfax Financial Holdings Ltd (ticker FFH CN). The Chairman of Brookfields Funds Mgmt Ltd sits on the board of Fairfax since 2010. It seems surprising that a Canadian insurance company would take an 8% stake in an Australian coal port IPO unless there are strong connections with the previous owner.
[5] "Final port of coal? The Brookfield Dalrymple IPO", AFII, 16 Nov; "DBI overvalued", IEEFA, 7 Dec, 2020.
[6] "Norway's new oil fund chief seeks more ESG-driven divestments", Financial Times, 7 Oct 2020.

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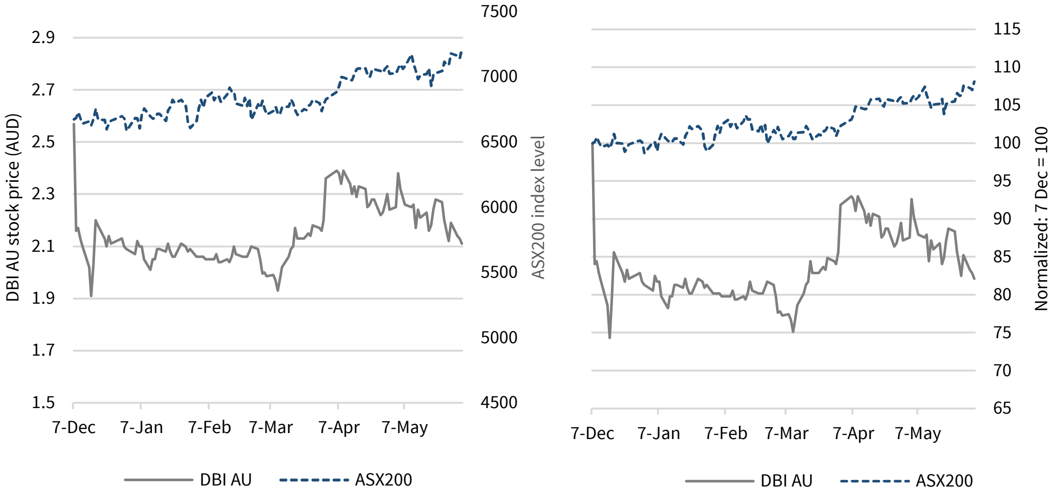
Figure 1. Equity performance of the Dalrymple Bay Infrastructure IPO: in absolute terms (left hand panel), and normalized terms (right hand panel). We use the S&P/ASX 200 index as benchmark. Source: Bloomberg, AFII calculations. Final pricing date 2 June 2021. Excludes dividends (AUD0.045,~2%) for DBI.



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