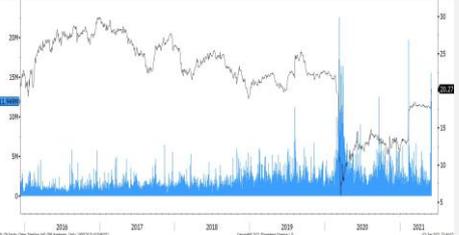


Deal Terms	
1 IPL CN = C\$19.50 or 0.225 BIPC CN	
1 IPL CN = 0.5 PPL CN	
Target: Inter Pipeline	
Country	Canada
Bloomberg	IPL CN
Sector	Pipelines
Share price (CAD)	20.27
Market cap (CAD mn)	8,700
Free float %	~100
Acquirer: Brookfield Infrastructure	
Country	Canada
Bloomberg	BIPC CN
Sector	Gas Utilities
Share price (CAD)	88.14
Market cap (CAD mn)	3,962
Free float %	~80
IPL CN Price Chart	
	
Deal status: Brookfield's Tender Offer set to expire on June 22, 2021.	
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Inter Pipeline (IPL CN) / Brookfield Infrastructure (BIPC CN) / Pembina Pipeline (PPL CN) Update

Brookfield's proposal appears to be superior at this moment as it is worth more, has a significant cash component and could close imminently. We don't expect that this is Pembina's best offer. They probably expected Brookfield to improve their bid, so we see at least one more improvement from Pembina.

Background

- On April 5, Inter Pipeline Ltd said, it would receive C\$408 million (\$325.15 million) under the Alberta Petrochemicals Incentive Program for the company's Heartland Petrochemical Complex in the province.
- On June 1, Pembina and Inter Pipeline Ltd. announced that they have entered into an arrangement agreement in a share-for-share transaction which values Inter Pipeline at approximately \$8.3 billion, or \$19.45 per share, based on the closing price of Pembina's common shares on May 31, 2021.
- On June 2, Brookfield announced its intent to file a revised offer for IPL by June 4 valuing the latter's shares at C\$19.75, and that it would take the offer directly to IPL shareholders. Brookfield claims that Pembina's offer presents "significant operational overlap which could impact customer antitrust concerns" and estimates that a Pembina deal could take more than 180 days to close. Brookfield filed its increased offer today, which expires on June 22.
- On June 3, IPL said it acknowledges Brookfield's intention to revise offer, but continues to recommend strategic combination with Pembina.

Pembina's bid

- The Boards of Pembina and Inter Pipeline have unanimously approved the agreement.
- We note the transaction is conditional upon:
 - Shareholder approvals
 - Pembina: majority of votes are required, Inter Pipeline: 66 2/3% are required.
 - Regulatory: Competition Act Approval, CTA Approval, HSR Approval and other approvals (probably Denmark, Sweden)
- We note there is also a C\$350m termination fee.
- Expected close is estimated in Q4 2021, following shareholder and regulatory approvals.

Brookfield's bid

- We note Brookfield Infrastructure has satisfied or waived certain conditions to the Offer, including receipt of key regulatory approvals, absence of material changes to IPL's business, Brookfield Infrastructure owning not less than 66 2/3% of the IPL Shares.
 - Brookfield says it can close the deal in 20 days.
 - We note Brookfield owns 19.6% interest, but 9.75% ownership in IPL.
 - However, the Offer remains subject to the non-waivable statutory condition that more than 50% of the outstanding IPL Shares, excluding IPL Shares owned by Brookfield.

CBR view

- Pembina's offer of 0.5 PPL CN per share valued Inter Pipeline common shares at C\$19.45 per share, based on the closing price of Pembina's common shares on May 31, 2021. Today it is worth C\$19.08.
- Brookfield's revised proposal is constructed as a cash or stock transaction:
 - C\$19.50 (74% of the total consideration) or 0.225 BIPC CN (26%)
 - The aggregate consideration was valued at C\$19.75 share on June 1, representing a 47% and 51% premium to IPL's closing and 30-day VWAP unaffected share price as of February 10, 2021, respectively. Today the offer is worth C\$19.60.
- Brookfield's proposal appears to be superior at this moment as it is worth more, has a significant cash component and could close imminently. We don't expect that this is Pembina's best offer. They probably expected Brookfield to improve their bid, so we see at least one more improvement from Pembina.**
- We believe the key question is how much more Pembina could offer to trump Brookfield's bid.
- We believe Pembina cannot offer to much in cash as it could negatively affect its credit rating (BBB).
 - We note both IPL and PPL have high debt levels:
 - With C\$150m synergies, the combined entity's leverage would reach 4.0x
 - However, we note midstream companies tend to have high debt levels.
- Based on our leverage calculations, we believe Pembina could offer an extra C\$1-2 cash per share for IPL in addition to the 0.5 PPL share consideration. Alternatively, they could add more shares up to 0.55-0.60 PPL CN / IPL CN based on our EPS accretion calculations assuming C\$150m synergies for 2022 and C\$200m from 2023. A 0.55 exchange ratio would still offer double-digit accretion for PPL shareholders in 2024.**
- However, while the strategic combination with Pembina seems more accurate for Inter Pipeline, we believe Brookfield has the financial needs to win the bidding war for IPL.

Background

NEWS FLOW

- On February 10, 2021, BIP press released its intention to make the Offer consisting of \$16.50/share in cash (maximum of \$4.9B), and 0.206 BIP shares for each IPL share approximating \$16.50/share. In a proactive act, IPL established a special committee of independent directors to review all strategic alternatives.
- On February 18, Inter Pipeline issued a press release announcing that the Inter Pipeline Board had initiated the Strategic Review to maximize Shareholder value and that the Inter Pipeline Board had established the Special Committee to oversee the Strategic Review.
- On February 22, the Offeror filed the Brookfield Circular and related documents including a copy of the advertisement on Inter Pipeline's SEDAR profile, commencing the Hostile Bid.
- On March 8, based on the unanimous recommendation of the Special Committee, the Inter Pipeline Board concluded that (i) the Hostile Bid is inadequate, does not reflect full and fair value for the Common Shares, and is not in the best interests of Inter Pipeline or its Shareholders. For the foregoing reasons, the Inter Pipeline Board unanimously recommended that Shareholders reject the Hostile Bid and to not tender their Common Shares to the Hostile Bid, and approved the contents and delivery of the Directors' Circular.
- On April 5, Inter Pipeline Ltd, said it would receive C\$408 million (\$325.15 million) under the Alberta Petrochemicals Incentive Program for the company's Heartland Petrochemical Complex in the province.
- On June 1, Pembina Pipeline Corporation and Inter Pipeline Ltd. announced that they have entered into an arrangement for Pembina to acquire all of the issued and outstanding shares of Inter Pipeline in a share-for-share transaction which values Inter Pipeline common shares at approximately \$8.3 billion, or \$19.45 per share, based on the closing price of Pembina's common shares on May 31, 2021.
- On June 2, Brookfield Infrastructure announced its intent to file a revised offer for IPL by June 4 valuing the latter's shares at C\$19.75, and that it would take the offer directly to IPL shareholders. In a comparison of its own and Pembina's offer, Brookfield claims that Pembina's offer presents "significant operational overlap which could impact customer antitrust concerns" and estimates that a Pembina deal could take more than 180 days to close.
- Brookfield filed its increased offer today, which expires on June 22.
- On June 3, IPL said it acknowledges Brookfield's intention to revise offer, but continues to recommend strategic combination with Pembina.

PEMBINA'S BID

- The Board of Directors of each of Pembina and Inter Pipeline have unanimously approved the arrangement agreement and support the Transaction.
- We note the transaction is conditional upon:
 - Shareholder approvals
 - Pembina: majority of votes are required.
 - Inter Pipeline: 66 2/3% are required.
 - Regulatory: Competition Act Approval, CTA Approval, HSR Approval and other approvals (probably Denmark, Sweden)
- We note there is also a C\$350m termination fee.
- Expected close is estimated in Q4 2021, following shareholder and regulatory approvals.

BROOKFIELD'S BID

- We note Brookfield Infrastructure has satisfied or waived certain conditions to the Offer, including receipt of key regulatory approvals, absence of material changes to IPL's business, Brookfield Infrastructure owning not less than 66⅔% of the IPL Shares.
 - Brookfield says it can close the deal in 20 days.
 - We note Brookfield owns 19.6% interest, but 9.75% ownership in IPL.
 - This is a result of an agreement that Brookfield and with an ISDA swap dealer has entered into that gives Brookfield further economic ownership without legal ownership of an additional 9.8% of IPL's shares (the Total Return Swap Shares - "TRS Shares"). For the TRS Shares, Brookfield receives all the economic upside but cannot vote those shares. ("The Total Return Swap affords economic exposure to Common Shares, but does not give any member of the Offeror Group any right to vote, or direct or influence the voting, acquisition, or disposition of any Common Shares.")
 - However, the Offer remains subject to the non-waivable statutory condition that more than 50% of the outstanding IPL Shares, excluding IPL Shares beneficially owned by Brookfield Infrastructure.

Valuation

PREMIUM

- Pembina's offer of 0.5 PPL CN per share valued Inter Pipeline common shares at:
 - C\$19.45 per share, based on the closing price of Pembina's common shares on May 31, 2021.
 - C\$19.01 per share, based on the closing price of Pembina's common shares on June 2, 2021. Today it is worth C\$19.08.
- Brookfield's revised proposal is constructed as a cash or stock transaction:
 - C\$19.50 (74% of the total consideration) or 0.225 BIPC CN (26%)
 - The aggregate consideration was valued at C\$19.75 share (based on BIPC's closing price on June 1, 2021) representing a 47% and 51% premium to IPL's closing and 30-day VWAP unaffected share price as of February 10, 2021, respectively.
 - The aggregate consideration was valued at C\$19.59 share based on BIPC's closing price on June 2, 2021. Today the offer is worth C\$19.60.

LEVERAGE

- We believe the key question is how much more Pembina could offer to trump Brookfield's bid.
- We believe Pembina cannot offer to much in cash as it could negatively affect its credit rating.
 - We note both IPL and PPL have high debt levels:
 - IPL's debt is around C\$7 bn, leverage is 6.9x (based on 2021 EBITDA)
 - PPL's debt is approximately C\$11 bn, leverage is 3.3x (using 2021 EBITDA)
 - With C\$150m synergies, the combined entity's leverage would reach 4.0x (using 2021 EBITDA)
 - Pembina's current credit rating is BBB, IPL's rating is BBB-
 - However, we note midstream companies tend to have high debt levels.
 - Enbridge: 4.8x
 - TC Energy: 5.4x
 - Gibson Energy: 3.6x
 - Kinder Morgan: 4.3x
- Based on our leverage calculations, we believe Pembina could offer an extra C\$1-2 cash per share for IPL in addition to the 0.5 PPL share consideration.
 - If PPL raise + C\$1 per share, the combined entity's leverage would reach 4.1x
 - If PPL raise + C\$2 per share, the combined entity's leverage would reach 4.2x
- However, while the strategic combination with Pembina seems more accurate for Inter Pipeline, we believe Brookfield has the financial needs to win the bidding war for IPL.

EPS ACCRETION

- We note the 0.5 PPL share consideration is highly accretive for shareholders.
 - Assuming C\$150m synergies for 2022 and C\$200m from 2023.
- Based on our calculations, we believe Pembina could raise its stock offer up to 0.55-0.60 PPL shares.
- A 0.55 exchange ratio would still offer double-digit accretion for PPL shareholders in 2024:

	2021	2022	2023	2024
# of shares (m)				
Target shares acquired (O/S)	429	429	429	429
Bidder (O/S)	550	550	550	550
Bidder shares issued to target shareholders	236	236	236	236
Total Bidder shares post-merger	786	786	786	786
EPS (USD)				
Target EPS	0.94	1.21	1.44	1.66
Bidder EPS	2.43	2.56	2.45	2.69
MergedCo	2.215	2.45	2.50	2.79
Annual synergies (\$m)	-	150.0	200.0	200.0
% of synergies realised	0%	100%	100%	100%
Syn/share (post tax)	-	0.14	0.19	0.19
Cost of synergies				
Interest payment on debt /share (post tax)	-	-	-	-
Interest on foregone cash/share (post tax)	-	-	-	-
Adjusted MergedCo EPS	2.21	2.59	2.69	2.98
Earnings accretion/dilution				
Bidder accretion	-9.0%	1.2%	9.8%	10.8%

Disclosures:

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