Why Brookfield Infrastructure Partners L.P. Is My Top Canadian Dividend Pick

Description

When searching for dividend stocks in Canada, the same names typically come up: Canadian Banks, energy utilities such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), utilities, or until recently, oil companies.

Many of these names, however, have direct or indirect exposure to commodity prices and/or suffer from poor diversification, making them riskier than meets the eye.

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP) offers a much lower risk alternative than its competitors—with a higher yield and competitive dividend-growth rate—by investing in a diversified portfolio of "real assets" including ports, railroads, utilities, toll roads, pipelines, and telecom towers.

Brookfield's strategy is paying off for dividend investors. The company currently offers a yield of 5.7%, a sustainable payout ratio of 60-70%, and a dividend that has grown at a compound annual growth rate of 12% in each of the seven years since its inception. Brookfield expects to grow its dividend by 11-13% in 2016 and by about 10% annually going forward.

Even more importantly, Brookfield accomplishes this with a share price that is considerably less volatile than the overall market (and has considerable room for growth).

Brookfield's strategy is extremely low risk

Before looking at the excellent growth prospects Brookfield has, it is important to look at the risks. Brookfield has an extremely low-risk model, which is its most attractive feature.

Brookfield invests in infrastructure assets also known as "real assets." Real assets are unique because they are not only essential, but they also offer high barriers to entry and long-term, stable cash flows that are regulated or underpinned by take-or-pay contracts.

The most attractive feature of infrastructure assets is that they often have limited competition and can typically grow regardless of economic cycles. Things like ports, utilities, and rail assets are expensive to build and are often regulated by governments, which limits competition. A business typically cannot build an infrastructure asset in an area that is already served, especially if the existing asset has spare capacity due to the political complexities of securing right of ways and landowner permissions.

While these assets are low risk, Brookfield has reduced its risk even further by assembling a portfolio that not only holds many different types of assets, but that is also diversified globally.

Unlike pure-play utility, railroad, or pipeline businesses, Brookfield owns assets across a variety of sectors, which protects it from weakness in any given sector. Since diversification is a core part of its strategy, Brookfield is actively expanding its sector diversification, specifically into the airports and water business. Brookfield recently acquired a stake in the Guarulhos Airport, which is the largest airport in Latin America with 40 million passengers annually.

Brookfield's geographic diversification is also unparalleled. Currently, Brookfield has assets that are distributed across four continents with extensive activity in North America, South America (in particular Brazil), Europe, and Australia. Recently, Brookfield opened offices in Mexico, China, and India as it looks to further expand its footprint.

Brookfield also has impressive growth prospects

While diversification and stable cash flows are nice, it is growth that gets investors excited. Brookfield has a highly successful growth strategy, which is even more impressive considering its low-risk nature. Since 2008 when the company started, Brookfield has grown its market capitalization from $500 million to about $8 billion today.

Going forward, Brookfield is targeting annualized total returns for shareholders of 12-15%. It will accomplish this through both organic and inorganic growth. On the organic side, 85% of Brookfield's earnings grow either with inflation or GDP. This means that much of Brookfield's contract income sees growth with inflation.

In addition, Brookfield also sees growth with the underlying GDP of the economies it operates in as surplus capacity in many of its businesses is filled. Brookfield is also using its own cash flows to expand its existing business, and it currently has a $1.3 billion organic capital backlog.

Brookfield is also actively pursuing acquisitions—which has been the true driver of Brookfield's growth—and it has numerous opportunities in front of it.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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