



## These Quality Utilities With 6-7% Yields Are Strong Buys

### Description

Quality utilities pay out juicy and growing yields because they generate stable cash flows. Investors buying these businesses can sit back and enjoy the stable and growing income for many years to come.

**Brookfield Renewable Energy Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) and **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) are high-quality utilities. They pay out distributions in U.S. dollars and, using a foreign exchange of US\$1 to CAD\$1.42, they yield 7.1% and 6.3%, respectively. The stronger U.S. dollar and price pullbacks are factors of the high yields.

### Brookfield Renewable Energy

Brookfield Renewable owns, operates, and develops renewable power generation assets in North and South America and Europe. The business has more than a century of experience in the power sector, and 81% of its portfolio is hydro-power assets with the remainder primarily in wind-power facilities.

Brookfield Renewable has roughly US\$19 billion in assets and about 7,300 megawatts (MW) of installed capacity. This month, together with its institutional partners, the business intends to acquire 57.6% of **Isagen S.A.** from the Colombian government.

Isagen has a 3,000 MW of primarily hydroelectric-generating capacity and a 3,800 MW development portfolio in Colombia. The acquisition aligns well with the assets Brookfield Renewable already owns—assets that generate strong and stable cash flows.

Brookfield Renewable has increased distributions for six consecutive years and 90% of its cash flows are contracted. Further, it targets to grow distributions by 5-9% per year on average and to maintain a funds from operations (FFO) payout ratio of 60-70%. Stable cash flows and a sustainable payout ratio increases the safety of its 7.1% yield.

From January 1, 2000 to September 30, 2015, a \$10,000 investment (with dividends reinvested) in Brookfield Renewable grew to over \$100,000. In the same period, S&P/TSX returned over \$20,000, and S&P 500 returned less than \$20,000.

## **Brookfield Infrastructure**

Brookfield Infrastructure owns and operates a diversified portfolio of high-quality infrastructure assets in Europe, Australia, and North and South America. The business owns utility assets that are diversified across six countries.

For its transportation business, Brookfield Infrastructure has large rail operations in Australia and South America, 11 toll roads in South America, and 30 ports in North America, the United Kingdom, and across Europe.

Brookfield Infrastructure's energy business consists of energy transmission, distribution, and storage services. In France, the business has communications infrastructure, which are essential to the media broadcasting and telecom sectors.

Brookfield Infrastructure has increased distributions for eight consecutive years. Based on its third-quarter 2015 results, 90% of its cash flows are either regulated or contracted and 84% of its cash flows are generated from its utility and transport businesses. These attributes, in addition to its FFO payout ratio of about 67%, increase the safety of its 6.3% yield. Brookfield Infrastructure targets to grow distributions by 5-9% per year.

Over the one-, three-, and five-year periods that ended November 5, 2015, unitholders of Brookfield Infrastructure (with dividends reinvested) enjoyed average annual returns of 23% or higher.

## **Tax on distributions**

The distributions paid out by Brookfield Renewable and Brookfield Infrastructure are like dividends, but they're taxed differently. Their distributions can consist of return of capital, interests, and dividends.

Additionally, if their distributions consist of U.S. dividends, there will be a 15% withholding tax on that portion if the shares are held in a non-registered or TFSA account. Withheld taxes in a TFSA are not recoverable.

The constituents of distributions can change, so interested investors should use the "Tax Information" section of their websites as a reference only. Investors should check with a qualified financial advisor or tax professional to determine which account is best to buy Brookfield units.

## **Conclusion**

The Brookfield businesses are priced at attractive valuations and have above-average yields of 6-7%. No matter if you're a total returns, income, or value investor, I believe it is worth it to consider the Brookfield businesses today. I bought shares in these quality utilities at higher costs than they're trading today, and I believe Brookfield Renewable, which is at about \$33, and Brookfield Infrastructure, which is under \$48, are strong buys.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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