2 of the Best Infrastructure Stocks Money Can Buy

Description

Infrastructure stocks are some of the safest investments in the market, because their assets, such as pipelines, storage facilities, regulated utilities, roads, and ports, are vital components to the world's economy. The majority of these assets also involve long-term, fee-based contracts with the companies that utilize them, which leads to predictable cash flows for the infrastructure owners, and this allows them to return a significant amount of capital to their shareholders in the form of dividends.

With all of this in mind, I've selected two companies with great portfolios of infrastructure assets, and whose stocks are undervalued and have great dividends, so let's take a closer look at each to determine if you should invest in one of them today.

1. Inter Pipeline Ltd.

Inter Pipeline Ltd. (TSX:IPL) is one of the largest owners and operators of energy infrastructure in western Canada and Europe. Its assets include oil sands pipelines, conventional oil pipelines, bulk liquid storage terminals, and natural gas liquids extraction plants.

Its stock currently trades at just 19.2 times fiscal 2016's estimated earnings per share of $1.40 and only 18.6 times fiscal 2017's estimated earnings per share of $1.45, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 26.9 and its trailing 12-month price-to-earnings multiple of 22.3.

Additionally, Inter Pipeline pays a monthly dividend of $0.13 per share, or $1.56 per share annually, which gives its stock a yield of about 5.8% at today's levels.

It is also important for investors to make the following two notes.

First, the company has raised its annual dividend payment for seven consecutive years, including a 10% compounded annual growth rate since 2011, and its 6.1% hike in November has it on pace for 2016 to mark the eighth consecutive year with an increase.

Second, I think Inter Pipeline's very strong growth of funds from operations (FFO) attributable to its shareholders, including its 5.8% year-over-year increase to $175.9 million in the first quarter of 2016, its modest payout ratio, including 74.6% of its FFO in the first quarter, and its growing long-life, fee-for-service asset base will allow its streak of annual dividend increases to continue going forward.

2. Brookfield Infrastructure Partners L.P.

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP) is one of the largest owners and operators of infrastructure in North America, South America, Australia, and Europe. Its assets include rail networks, toll roads, ports, natural gas pipelines, natural gas storage terminals, electricity transmission lines, and communications towers.

Its stock currently trades at just 40.6 times fiscal 2016's estimated earnings per share of US$1.08 and only 28.9 times fiscal 2017's estimated earnings per share of US$1.52, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 48.8 and its trailing 12-month price-to-earnings multiple of 59.4.

Additionally, Brookfield pays a quarterly dividend of US$0.57 per share, or US$2.28 per share annually, which gives its stock a yield of about 5.2% at today's levels.

It is also important for investors to make the following two notes.

First, the company has raised its annual distribution for six consecutive years, including a 12% compound annual growth rate in that span, and its 7.5% hike in February has it on pace for 2016 to mark the seventh consecutive year with an increase.

Second, Brookfield has a target payout ratio of 60-70% of its FFO, and an annual distribution growth target of 5-9%, so I think its very strong FFO growth, including its 14.6% year-over-year increase to $1.02 per share in the first quarter of 2016, and its growing asset base will allow its streak of annual distribution increases to continue for the foreseeable future.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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