Why Brookfield Infrastructure Partners L.P. Is a Smart Buy

Description

When it comes to infrastructure, you'd think the government would have all the control. You'd be wrong. **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) operates a portfolio of infrastructure assets around the world. Where governments fall short, Brookfield Infrastructure picks up the slack.

According to a June presentation by Brookfield Infrastructure, there are serious funding gaps when it comes to infrastructure investments. Canada will have a gap of $200 billion by 2025, and Europe will be at EUR$1 trillion. Australia's was $700 billion as of 2013. And by 2020 the United States will have a US$3.6 trillion gap. And as long as these gaps exist, Brookfield Infrastructure is in a prime position to pick up the best assets it can.

Brookfield Infrastructure looks to acquire assets in utilities, energy, transportation, and communications infrastructure. It has rail operations in Australia and South America. It has thousands of miles of electricity transmission capability in North America. It owns telecommunications towers throughout Europe. It owns ports in Europe, North America, and South America. And it operates a series of toll roads in India and South America.

Its asset breakdown is as follows: 39% in utilities, 37% in transportation, 16% in energy, and 8% in communications. It has 41% of its cash flow coming from regulated sources, 50% is contractual, and the other 9% comes from diversified holdings.

As you can clearly see, the business is well diversified, and it is able to comfortably predict what its cash flow will be year to year, which makes investing in new assets all the more lucrative.

And when it finds a high-quality asset to buy, it pounces. It is participating with its parent company, **Brookfield Asset Management Inc.**, to acquire the natural gas pipeline unit from **Petroleo Brasileiro S.A.** for US$5.2 billion. Brookfield Infrastructure is committing $700 million, at minimum, to this acquisition. It has also won the right to build greenfield transmission lines in Brazil.

In Australia, Brookfield Infrastructure partnered with consortium of investors to buy **Asciano Ltd.,** a rail and port operator, for US$6.7 billion. I expect this deal to be done soon, and it will give further exposure to the rapidly growing Asian economies. Owning ports sounds right up Brookfield Infrastructure's alley.

All of this has made it possible for the company to work aggressively to reward its investors. From 2009 to 2015, its funds from operation grew from US$1.03 to US$3.59, a 23% compound annual growth rate. And going forward, the company wants to achieve a target of 12-15% total returns on invested capital, which will provide opportunity for investors.

From a dividend perspective, Brookfield Infrastructure pays a lucrative US$0.59 per quarter, which is a strong 3.73%. This is 9% higher than it was last year. Even better, the dividend has seen a CAGR of 12% since the company first launched. With an expected growth of 5-9%, I expect investors will be quite pleased.

One word of warning … for those investors who own shares of Brookfield Infrastructure before September 6, there is a three-for-two stock split taking place. This means that if you own two shares of stock pre-split, post-split, you'll have three. Your total income won't be affected. However, there is some belief that when a company splits, retail investors hop on board because it "appears" to be cheaper, so you might see a little appreciation.

CATEGORY

1. Investing

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