



Brookfield Infrastructure Partners L.P. Locks In High-End Dividend Growth for 2017

Description

Brookfield Infrastructure Partners L.P. ([TSX:BIP.UN](#))([NYSE:BIP](#)) has been an excellent income stock since parent company **Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)) spun it out in 2008. Not only does the company pay a very generous current yield, but it has grown the payout by a 12% compound annual rate since 2009. That strong distribution growth should continue in 2017 after it announced a major acquisition last week.

Dual fuels of distribution growth

Brookfield Infrastructure Partners's target is to organically grow its earnings as measured by funds from operations (FFO) by 6-9% annually over the long term. That earnings growth should enable the company to increase its payout by 5-9% per year. That said, the company can push both growth rates even higher if it can continue to acquire compelling infrastructure assets.

In fact, heading into this year, Brookfield Infrastructure Partners was optimistic that it could grow its distribution by 11-3% "contingent on achieving certain capital deployment targets." That meant closing acquisitions it had in its pipeline, including an investment in an Australian port and rail company as well as a natural gas-storage business. Because those transactions are on pace to close, Brookfield Infrastructure Partners was able to announce two distribution increases this year, boosting the payout by 11% year over year.

Further, the company provided the following guidance for next year: "Should we continue to execute our current growth initiatives as anticipated, we believe that our next increase may be at the higher end of our annual distribution growth range."

Mission accomplished

Last week the company was able to execute the largest of those growth initiatives after announcing that it was leading a consortium with Brookfield Asset Management to acquire a South American natural gas transmission utility.

In that deal, Brookfield Infrastructure Partners will pay US\$825 million for a 20% stake in the business, which supplies natural gas to Brazil's core industrialized and most populated states. A full 100% of those natural gas supplies are under long-term "ship-or-pay" contracts, which locks in Brookfield Infrastructure Partners's cash flow on the investment. Further, the company expects the deal to close by the end of this year, which puts it in the position to deliver high-end distribution growth early next year.

That said, just because Brookfield Infrastructure Partners has already locked in high-end growth for 2017, it does not mean the company will take the year off. Instead, it could be just as active as it was in 2016. That is because Brookfield Asset Management recently raised a \$14 billion private infrastructure fund—the largest ever raised by the industry—including \$3 billion from Brookfield Infrastructure Partners.

Brookfield Infrastructure Partners anticipates that this capital will be invested over the next three to four years, putting it on pace to hit its goal to invest \$500 million to \$1 billion per year on acquisitions. If that fund makes a significant transaction next year, it could push Brookfield Infrastructure Partners's distribution growth over the top end of its range.

Investor takeaway

The agreement to acquire a Brazilian gas transmission business puts Brookfield Infrastructure Partners on pace to deliver high-end distribution growth next year. That is the type of visibility that income investors like to see. However, because the company secured that growth several months early, it is entirely possible that the company could deliver even stronger-than-expected distribution growth next year.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:BN (Brookfield Corporation)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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Author
mdilallo

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