This 4.6% Yield Could Get Even Bigger

Description

Infrastructure giant **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) recently secured a major acquisition that virtually locks in high-end dividend growth for 2017. However, according to reports the company has another deal in its pipeline that could push 2017 dividend growth even higher. Further, with plenty of time and liquidity on its hands, the company could lock in an even bigger raise for its investors next year.

Connecting on a new deal

According to multiple reports, Brookfield Infrastructure Partners and its parent company **Brookfield Asset Management Inc.** will become a majority owner of the communications tower infrastructure of India's RCom wireless. The US$1.7 billion cash deal would be for a 51% stake in the towers. Further, the portfolio has significant organic growth potential as RCom and other wireless companies increase their wireless offerings by leasing additional space on the towers.

The deal would mirror Brookfield's first foray into communications infrastructure when it acquired a large communications tower infrastructure business in France in late 2014. Under the terms of that deal, a consortium led by Brookfield Asset Management bought 50% of the business at an enterprise value of US$2.2 billion with Brookfield Infrastructure Partners investing US$500 million for a 23% stake. It is more than likely that Brookfield Infrastructure would make a similarly sized investment in the RCom portfolio.

That could significantly boost the company's funds from operations next year assuming the transaction closes at similar metrics to the French portfolio. For perspective, that deal supplies roughly US$20 million of quarterly FFO, or about 8% of the company's earnings. As such, a similar investment in the Indian tower portfolio could boost 2017 FFO by a meaningful amount depending on timing and a range of other factors.

Adding up the dividend growth

Brookfield Infrastructure Partners's aim is to grow its FFO per share by 6-9% per year, primarily via organic growth initiatives such as inflation price escalators, volume improvement, and expansion projects. Those growing earnings are expected to fuel a 5-9% annual increase in the company's distribution to investors. However, the company can boost both numbers by making accretive acquisitions. This year, for example, it was able to grow its payout by 11% after completing several major acquisitions.

Looking ahead to 2017, the company has already sealed a deal to acquire a 20% stake in a Brazilian natural gas utility for US$825 million. That transaction is essential because it puts the company in the position to deliver high-end distribution growth in 2017. Because of that, the RCom deal could put the company in the position to deliver double-digit distribution growth next year if these transactions close quickly and its organic growth projects deliver as anticipated.

That said, Brookfield Infrastructure Partners might not be done doing deals just yet. The company noted last quarter that it has US$2.7 billion of liquidity at its disposal. Assuming it completes the $1.1 billion of deals it already has in the pipeline and pays about US$500 million for a stake in the Indian tower portfolio, it would have about US$1.1 billion in liquidity to take advantage of additional acquisition opportunities as they arise. That is plenty of liquidity to make at least one more needle-moving transaction without issuing any outside capital.

Investor takeaway

Brookfield Infrastructure Partners is having a great year; it's already boosted its distribution by double digits and secured several deals to position it for more of the same next year. In fact, its most recent transactions position the company to potentially deliver even stronger growth next year if it can secure another needle-moving deal over the next few months. Needless to say, the company's already lucrative payout is likely to get even better.

CATEGORY

1. Dividend Stocks
2. Investing

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mdilallo