



A Quality Utility With Growing Earnings and a Strong Dividend

Description

Brookfield Infrastructure Partners L.P. ([TSX:BIP.UN](#))([NYSE:BIP](#)) delivered double-digit earnings growth and completed three investments in the third quarter. Additionally, the quality utility has plans to invest for more growth down the road. So, buyers today can expect steady price appreciation of the quality shares over time.

Growing earnings

In the first three quarters of the year, Brookfield Infrastructure saw growth in all four of its business segments. The utility generated 15.7% higher funds from operations (FFO) compared with the same period in 2015. On a per-unit basis, it was 12.2% of growth.

Investing in the business

In Q3 the company invested US\$660 million in a group of Australian ports, Peruvian toll roads, and a North American gas-storage business. These assets are already contributing to the company's FFO. Together, they are expected to generate attractive starting yields of 8-10%.

In the near term, management has a number of growth initiatives in place. In the Q3 report, CEO Sam Pollock said, "In the upcoming years ... we will be investing over \$1.1 billion in the build-out of our Brazilian gas and electricity transmission business and have \$1.5 billion of growth projects that will be coming online over the next 12-18 months."

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Quality and diversified business

The infrastructure company owns and operates assets in utility (about 39% of cash flows), transport (38%), energy (16%), and communication infrastructure (7%).

Its utility business consists of regulated distribution and terminal assets, and electricity transmission assets. Its transportation business is divided into rail, toll road, and port assets.

The utility earns 86% of its cash flows from stable jurisdictions, which have average sovereign ratings of AA or AAA from Moody's, Standard & Poors, and Fitch.

Solid dividend

Brookfield Infrastructure earns about 90% of cash flows which are regulated or contracted. So, its cash flows remain stable to support its strong distribution yield of 4.7%. In Q3 its payout ratio was 68%, which is within the company's target range of 60-70%.

The utility has hiked its distribution every year since 2010 at an average rate of 12.1% per year. Management aims to continue hiking the distribution by 5-9% per year.

Conclusion

The company dipped 3% after its quarterly report likely because it has had a nice run-up of 27% on the NYSE and 23% on the TSX year-to-date. In the near term, the units are fairly to fully valued. So, it's inevitable for some profit-taking to occur.

That said, the dip is an opportunity for long-term investors to get in on a quality 4.7% yield that's supported by excellent assets. Assuming the company hikes the distribution by a midpoint rate of 7% in the coming year, investors can expect a forward yield of 5%.

Any further dips should be seen as buying opportunities.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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Author

kayng

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