



This High-Yield Stock Just Gave Investors a Big Raise and Another Might Be on the Way

Description

Brookfield Infrastructure Partners L.P. ([TSX:BIP.UN](#))([NYSE:BIP](#)) recently rewarded investors with an 11% distribution increase. As a result, current investors can collect a nearly 5% yield on the global infrastructure giant. However, with several growth initiatives working their way through the pipeline, the company clearly can continue growing the payout.

Putting the wraps on a big year

Brookfield has been a dividend-growth machine throughout its history. Last February, for example, the company provided investors with a 7.5% distribution increase, which was right in line with its forecast to deliver 5-9% annual increases to the payout.

However, as a result of strong cash flow growth and the expectation that it would soon close several acquisitions, the company provided investors with another increase mid-year, this time boosting the payout 3.5%. Further, the company was optimistic that its next increase in early 2017 could be at the higher end of its annual distribution growth range if it could complete its current growth initiatives.

Clearly, the company did that and more given that its latest increase was above the high end of the range. Even with the higher than expected increase, Brookfield's payout ratio over the past year was just 67%, which is well within its 60-70% target range.

Two factors fueled this expectation-beating dividend growth.

First, Brookfield currently has a larger than normal organic growth project backlog, which is driving incremental earnings growth. Last year, for example, the company deployed US\$850 million on growth projects across its portfolio. That is US\$250 million more than it invested in 2015.

Second, the company spent roughly US\$2 billion on acquisitions — including a natural gas storage system in the U.S., toll roads in Peru and India, and a container terminal business in Australia — which is well above its US\$500 million-US\$1 billion annual guidance.

Combined; these new investments boosted funds from operations by 17% last year.

What's coming down the pipeline?

Brookfield already has several strategic initiatives underway to continue its momentum in 2017. On the organic growth side, the company added US\$1.4 billion of capital projects to its backlog, which should fuel incremental earnings growth over the next two to three years.

In addition, it has three acquisitions currently in the pipeline that should close in the first half of the year. First, it expects to invest US\$1.3 billion for a stake in **Petrobras's** natural gas transmission system in Brazil. Second, it plans to spend up to US\$200 million for an interest in a telecommunications tower portfolio in India. Finally, it plans to spend \$15 million to acquire a Peruvian water-irrigation system. The clear visibility of these transactions enabled Brookfield to provide the double-digit distribution increase to start the year.

Brookfield also noted that it has several other potential deals in the works.

First, the company is currently evaluating several global tower portfolio acquisition opportunities which could add meaningful scale to its communications segment over the coming year. In addition, the company sees the potential for more corporate carve-outs to come to market this year, especially from North American energy companies that seem to be increasingly willing to sell non-core infrastructure assets.

Brookfield has a long history of acquiring non-core infrastructure assets from large corporations, having purchased **Vale's** Brazilian rail assets and the recent deal to buy a stake in Petrobras's natural gas transmission system.

Finally, Brookfield sees the potential to make acquisitions in Mexico this year due to the current uncertainty in the country following the election of Donald Trump as president of the U.S., which led to a significant drop in the peso and direct foreign investment in the country. Because of this, the company has increased its business-development efforts in that country, searching for opportunities that may arise from the current uncertainty.

If some of these acquisition opportunities materialize quickly, Brookfield could revisit its distribution mid-year. Otherwise, any future transactions position the company to deliver high-end distribution growth next year.

Investor takeaway

With an 11% increase to start the year, Brookfield Infrastructure Partners has now raised its payout by double digits for seven straight years. However, that might not be the only increase investors will see this year, because it is exploring several compelling opportunities around the globe. That said, even if none of those transactions materialize, the company has a large enough organic pipeline to drive robust distribution growth over the next few years.

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