



## Why Should This Utility Be a Core Holding in Your Portfolio?

### Description

**Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) has had a great run. In the last 12 months, its units appreciated more than 40%. Despite the strong price appreciation, the stock still offers a solid yield of close to 5%. That's partly thanks to its first-quarter distribution hike.

The company has top-quality, long-life assets, of which many have high barriers to entry. Its stable cash-flow generation supports a solid cash distribution.

Here's an overview of the business.

#### A diversified business

Brookfield Infrastructure owns and operates a diversified portfolio of critical infrastructure assets, including toll roads, railroads, ports, pipelines, and transmission and telecommunications towers.

It has 32 businesses in five continents. Its utility segment consists of about 2.8 million electricity and gas connections and 11,200 km of transmission lines. Its transport segment is comprised of about 9,900 km of rail operations, roughly 3,600 km of toll roads and 36 ports.

Brookfield Infrastructure earns 39% of its cash flows from its transport segment, 38% from its utility businesses, 16% from its energy segment, and 7% from its communications infrastructures.

railroad found or type unknown

#### A solid distribution

About 90% of the infrastructure company's cash flows are either contracted or regulated.

Further, 70% of its cash flows are indexed to inflation and 60% have no volume risk.

These factors allow it to earn stable cash flows to sustain a safe distribution.

Brookfield Infrastructure has hiked its distribution for nine consecutive years. Its three-year distribution

growth rate was 10.5%.

Early this month, it boosted its U.S. dollar-denominated quarterly distribution by 10.6%. At about \$47 per unit, the company yields nearly 4.9% — thanks partly to a strong U.S. dollar against the Canadian dollar.

It has a sustainable payout ratio of 67% and aims to maintain the ratio between 60% and 70%.

### **Great management**

Brookfield Infrastructure's general partner and manager owns about 30% of the company. So, their interests are aligned with that of the unitholders.

The CEO and CFO have been with Brookfield Infrastructure since inception. And the strategy to acquire quality assets on a value basis, to use an operations-oriented management approach, and to actively recycle mature assets hasn't changed.

Management has been a great capital allocator. In the past eight years, it sold eight businesses with an average internal rate of return of over 25%, generating more than US\$2 billion of gross proceeds.

And it will rinse and repeat for similar success. In the next few years, it plans to raise US\$1.5-2 billion of proceeds to invest in quality value assets.

Including its merger and acquisition efforts, the management has allowed for Brookfield Infrastructure's eight-year funds from operations (FFO) per unit to grow 22% per year.

### **Investor takeaway**

Brookfield Infrastructure has a track record of creating value for unitholders and has outperformed the market and the industry over the long term. The company will continue to grow.

Over the next two to three years, the company plans to commission US\$2.3 billion of projects, which will be funded by the company's retained cash flows.

Management believes it's possible to achieve total returns of 12-15%, which includes growing its distribution. Due to Brookfield Infrastructure's quality, diversity, and cash-generation ability, investors should consider it for their long-term portfolio. Any meaningful dips should be seen as buying opportunities.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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