



2 Valuable Utility Stocks Trading Near Their Highest Prices

Description

Since 2016, **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) and **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) shares have had incredible runs of 53% and 23%, respectively. Some investors might have taken profits already, and, honestly, I have thought about doing the same thing in the last few months.

However, I haven't. The reason being that they're valuable utilities. Not only do they add stability to my portfolio, but they also have a tendency to increase their distributions. Over time, as their payouts grow with support from earnings and cash flow growth, their share prices also move continue steadily higher.

Long-term thinking

The stocks' near-term performances have been stellar. If you look at their long-term price charts, you should be even more impressed. In seven years, Brookfield Infrastructure's share price has appreciated 370%, and Algonquin's has climbed 229%.

Throwing in the dividend returns, the utilities have delivered total returns of about 462% and 299%, respectively, which equates to whopping annualized returns of 28% and 21.9% in that period.

Many fund managers love these kinds of returns. Any time these stocks dipped or traded sideways in the last seven years was a buying opportunity.



An overview of the businesses

Brookfield Infrastructure owns and operates a globally diversified portfolio of essential infrastructure assets. It has electricity and gas distribution businesses, railroads, port terminals, toll roads, and telecom towers. As well, it's involved in energy transmission, distribution, and storage.

Algonquin has 33 regulated utilities that distribute electricity, gas, or water to a total of 757,000 U.S. customers. These utilities contribute about 75% of its earnings before interest, taxes, depreciation, and amortization (EBITDA).

Furthermore, Algonquin has renewable and clean-power generation with a net installed capacity of 1,500 MW which contributes to about 25% of its EBITDA. About 88% of the generation is under long-term power-purchase contracts with inflation escalations.

Going forward

I don't believe these utilities will outperform in the next 12 months. In fact, it's possible that they will underperform because they're fully valued.

However, they offer safe yields of 4.2-4.4%, which are decent given what's available on the market these days. Moreover, both companies look like they will continue to grow their distributions going forward. Brookfield Infrastructure aims for distribution growth of 5-9% per year, while Algonquin aims for dividend growth of 10% per year.

Investor takeaway

Next time, before selling a winner, think about what role it plays in your portfolio. If you're building a diversified portfolio, chances are you'll want to keep at least some shares and add on dips or in consolidation periods.

In a market correction, I believe shares of valuable utilities, such as Brookfield Infrastructure and Algonquin, will fall less than the general market.

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1. Dividend Stocks

2. Energy Stocks
3. Investing

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