



## What's the Trade-Off of Investing in a Quality Dividend Stock?

### Description

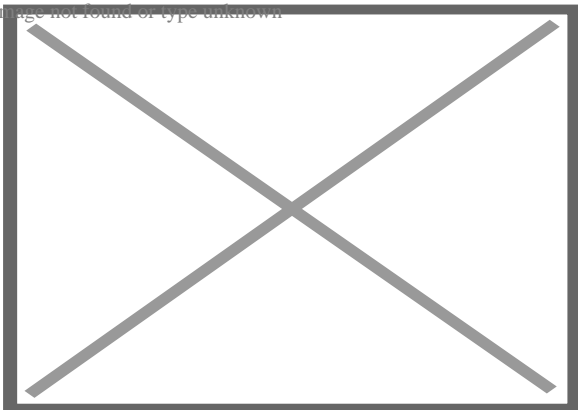
When investing, there's a trade-off when choosing between quality stocks and stocks that are not as high quality. This reminds me of Warren Buffett's quote: "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

So, what's the trade-off? When you invest in wonderful businesses at fair prices, you're accepting lower returns, more stability, and less uncertainty versus high-flying stocks that may or may not keep their momentum, or commodity stocks that can climb high or fall hard based on the unpredictable ups and downs of the underlying commodity prices.

If you buy quality dividend stocks, you'll add another level of stability because of the dividend. It's even better if the company offers a growing dividend.

Characteristics you should look for in a quality dividend stock are its dividend safety, its ability to grow dividends, its quality assets, and its strong balance sheet. I'll use **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) as an example.

Image not found or type unknown



### Dividend safety

Brookfield Infrastructure has a globally diversified portfolio of quality infrastructure assets in four

different sectors. These assets generate stable cash flows to support its dividend.

The limited partnership offers a decent yield of nearly 4.4%, which is supported by a payout ratio of 60-70% of cash flow. The company also has a track record of growing its dividend, which is supported by cash flow growth.

### **Ability to grow its dividends**

Since 2009, Brookfield Infrastructure has increased its cash flow per share and dividend per share at a compound annual growth rate (CAGR) of 19% and 12%, respectively.

This shows that the management has the ability to grow its dividend at a healthy pace. Going forward, management aims to grow its dividend at a CAGR of 5-9%.

### **The trade-off**

It's rare to find quality dividend-growth businesses at a discounted price. After a tremendous run of 43% since 2016, the investment-grade shares (with an S&P credit rating of BBB+) now have limited near-term upside according to **Thomson Reuters's** recent report.

The report indicates a 12-month target of US\$43.40 per share, which translates to \$54.25 based on the current foreign exchange of US\$1 to ~CAD\$1.25.

At the recent quotation of \$50.16 per share, the target represents a near-term upside potential of ~8.1%. Adding in the yield of ~4.3%, that's a 12-month total return potential of ~12.4%

In summary, the trade-off of investing in a quality dividend-growth stock such as Brookfield Infrastructure is that the shares are expensive most of the time. Additionally, investors will have to accept a lower rate of return for the stability, reduced uncertainty, quality assets, and the safe, growing dividends that they bring.

### **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.)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### **Category**

1. Dividend Stocks
2. Investing

**Date**

2025/08/12

**Date Created**

2017/07/20

**Author**

kayng

default watermark

default watermark