Make Value Investments in Infrastructure With Brookfield Infrastructure Partners L.P.

Description

Let's talk infrastructure.

Because *austerity* has been the favourite word for the past decade, infrastructure around the world is crumbling. Rather than focusing on keeping infrastructure strong, governments have done lip service about needing to cut back on costs.

Nevertheless, these provides opportunity, because where the public sector can't make changes, the private sector can. Your best bet to benefit from investments in infrastructure projects is to invest in **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP).

Its portfolio is vast and generates significant amounts of cash flow. It owns 15,000 km of natural gas pipeline, storage capacity to hold 600 billion cubic feet of natural gas, 11,000 km of electrical transmission lines, 3.8 million gas and electric connections, 10,000 km of railroads, 36 ports, 7,000 telecom towers, 5,000 km of fibre optic lines, and a network of toll roads.

What's clear is that the company invests in energy, utilities, transportation, and communication. This strategy is smart because those are core products. Nothing here is discretionary; people need everything that Brookfield Infrastructure has to offer.

What makes Brookfield Infrastructure even better is that its revenue sources are both regulated and contractual — 35% and 58%, respectively, of total cash flow. Across its utilities, transportation, energy, and communications divisions, Brookfield Infrastructure generated US$304 million in funds from operations.

But, here's why I believe you should invest in Brookfield Infrastructure: at its core, it's a value investor. That's the Brookfield way. Therefore, when you invest in Brookfield Infrastructure, you're partnering with a value investor looking to invest in projects that are discounted and will generate enough cash flow to pay you a dividend.

In 2016, Brookfield Infrastructure led a consortium of investors to acquire Asciano Limited, a freight logistics company that operated railway and ports in Australia. It invested US$530 million in the total takeover, which came in at close to $9 billion, and acquired the perfect infrastructure project. Ports aren't going anywhere; shipping will need to continue to operate because goods need to get around.

Brookfield Infrastructure also acquired Nova Transportadora do Sudeste S.A., originally owned by **Petroleo Brasileiro S.A.** Brookfield Infrastructure led a consortium that spent US$5.2 billion to acquire 90% — Brookfield Infrastructure put US$1.3 billion in. This adds to the company's natural gas transmission capabilities.

Both of these are examples of high-quality takeover targets that are consistently going to generate cash flow because natural gas and shipping are needed.

Brookfield Infrastructure currently pays a dividend US$1.74 per year. Between 2007 and 2009, the dividend increased by a 12% CAGR. Going forward, management is targeting yearly growth in the range of 5-%. Without accounting for capital appreciation, that's a decent return on investment.

Here are the raw numbers: according to estimates, there are massive funding gaps for infrastructure projects around the world. Some numbers suggest that there is US$3.6 trillion gap in the United States, $200 billion in Canada, €1 trillion in Europe, and AUD$700 billion in Australia. If governments aren't going to fix it, let's invest in the company that will try and will make money along the way.

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