



## Is Brookfield Infrastructure Partners L.P. a Smart Income Buy?

### Description

Through August, **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) saw shares increase by nearly 10% thanks to an exceptional second quarter. Although the company has returned a little of that, the truth is, Brookfield is in a prime position for all investors — but especially those looking for income.

At first glance, though, you might not think Brookfield is a smart income play. The company only yields 3.25%, which is much lower than some of the other strong dividend plays on the market. However, the US\$0.435 per share is secure and, thanks to the company operating a smart business, there is room for growth. There are a few reasons for this.

First is the company's portfolio. On the energy and utility front, it owns 15,000 km of natural gas pipelines, 600 billion cubic feet of natural gas storage, 11,000 km of electrical transmission lines, and 3.8 million gas and electric customers. Brookfield's "transport" business is comprised of 10,000 km of railroads, 36 ports, and a network of tollroads. And finally, its communications business includes 7,000 telecom towers and 5,000 km of fibre optic lines.

All of these assets provide significant cash flow, which is the most important number for income investors. So long as cash flow remains strong, investors can expect a dividend.

We can see this strength in the company's second-quarter results. Its funds from operations (FFO) increased to US\$295 million from US\$230 million in the previous year. In the six months ended June 30, its FFO is US\$556 million compared to US\$464 million — this is a 12% improvement.

And the growth isn't slowing down, which is the second reason I am a fan of this company.

On the organic front, Brookfield is sitting on a US\$2.4 billion capital backlog with +US\$1.5 billion in potential organic growth projects. These will, ideally, boost the FFO even more. But the real growth, in my opinion, comes with the company's M&A activity.

There are two pending transactions that are likely to boost FFO.

The first is the Brookfield-led consortium buying a portfolio of over 40,000 telecom towers in India from **Reliance Telecom**, of which Brookfield's portion is US\$200 million. This should close at the end of the year so long as **Reliance Communications** merges with **Aircel**. The other is the US\$15 million acquisition of a Peruvian water utility. This is a small buy, but Brookfield made a concerted effort three years ago to move into the water utility business.

As we'll see over the coming quarters, these sorts of deals provide the needed cash flow for the company to boost its dividend. Management's mission is to boost the yield by anywhere from 5% to 9% annually. As it works through its strong backlog of organic projects and simultaneously acquires smart assets, I see little reason why the FFO won't continue to increase.

The reality is simple: Brookfield Infrastructure buys long-term value infrastructure projects that people are going to need for decades. It continues to add to its portfolio which then generates strong cash flow. All of this makes it possible for Brookfield to pay an amazing dividend. The yield may appear on the lower end right now, but the growth is quite significant.

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Author

jaycodon

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