Brookfield Infrastructure Partners L.P.: 3 Reasons Not to Sell This Stock

Description

Investors sent **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) stock down ~5% on September 11 when this top dividend-paying company announced that it was raising over US$1 billion in a new equity offering.

The news was a surprise and dilutive for existing shareholders, who didn't like the new offer price given to a select group of institutional investors at a ~4% discount.

I've been recommending this top dividend stocks for a couple of months, and this new development doesn't change my call. Here are the three reasons to support Brookfield Infrastructure stock going forward, despite this temporary setback.

Diversified asset base

The partnership owns a strong and diversified portfolio of assets, including utilities, transportation, energy, and communications infrastructure across North and South America, Asia Pacific, and Europe.

This portfolio of critical infrastructure assets globally provides long-term investors nice diversification and helps the company generate stable cash flows with minimal maintenance capital expenditures.

Its assets range from electricity and gas distribution businesses in Australia and the U.S., railroads in South America, and a portfolio of 36 ports in North America, Asia Pacific, the U.K., and across Europe.

As global customers use these critical assets, Brookfield gets paid a utilization fee, which generates stable cash flow. The company distributes the most of its cash flow among shareholders in dividends.

Strong capital gains

Investors who bought Brookfield Infrastructure units in 2009, when it started trading, have seen the value of their units surge more than three times — a return of 347%.

On a total-returns basis, the company has delivered a 27% return on annualized basis, far exceeding many of its peers. The company has been able to produce superior returns because its businesses generally operate under regulated or contractual frameworks that provide sustainable cash flows.

Because the company's assets are diversified by sector and geography, its portfolio's exposure to any single counterparty, regulatory regime, or market fluctuation is reduced.

In the recent quarter, the growth in the company's cash flows has been led by a strong and growing utility segment. Funds from operations from utilities surged 68% from the same period a year ago to $168 million.

The current equity offering suggests that the company is still in growth mode, as the management indicated in its press release: "Brookfield Infrastructure intends to use the net proceeds … to fund a growing backlog of committed organic growth capital expenditure projects, an active pipeline of new investment opportunities and for general working capital purposes."

Dividend growth

Brookfield Infrastructure has been a great dividend-growth stock. With a current dividend yield of 3.4%, Brookfield pays a quarterly payout of $0.435 a share.

The company targets annual growth of 5-9% in its dividend, but the actual growth of 12% has far exceeded its distribution target.

Trading at $53.75, Brookfield stock is down about ~4% in the past month, but still trading close to the 52-week high of $56.61. Income investors should take advantage of any further pullback as new equity issuance is a sign of strength, not of weakness.

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