



## Why I Love This Utility Stock

### Description

The value of utility stocks isn't about outperforming the market (though they can, sometimes). Investors hold them for their stable nature. Getting consistent dividend paycheques for income is a big reason to hold them as well.

My biggest utility holding is **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)). This is thanks partly to its outperformance.

Long-term investors should root for their holdings to decline in the short term, so that they can buy more shares at cheaper prices. However, I can't help but cheer (and feel good) about Brookfield Infrastructure's price appreciation.

### Outperformance in total returns

On the Toronto Stock Exchange, Brookfield Infrastructure's five-year rate of return was 22%. This greatly outperformed the market and its peers. In the same period, the **S&P 500 Index** returned 14% per year, the **S&P Utilities Index** returned 12% per year, and the **S&P/TSX Capped Utilities Index** returned 6% per year.

### Strong distribution growth

Brookfield Infrastructure's [outstanding results](#) were helped by its growing distribution. Its distribution per unit increased on average by 11.7% over the five-year period. In other words, unitholders who have held the stock for five years would have seen their income increase by ~74% from the investment.

### The business

Brookfield Infrastructure's business profile has become bigger and better over time. The company now owns 35 businesses across the sectors of utilities (~47% of funds-from-operations generation), transport (~34%), energy (~14%), and communications infrastructure (~5%).

Brookfield Infrastructure's utility operations are all regulated, including distribution, transmission, and

terminal businesses. Its transport operations including toll roads, rail, and ports.



Essentially, ~95% of its cash flow generation is regulated or contracted and ~75% is indexed to inflation. Altogether, the company's cash flow generation is sustainable over the long term.

Moreover, the company's earnings before interest, taxes, depreciation, and amortization margin has improved over time. From 2012 to 2016, Brookfield Infrastructure's revenue grew on average ~7% per year, but its costs only increased at a rate of ~1.6%.

### Investor takeaway

Brookfield Infrastructure has performed well over the years. Particularly, in the last year and a half or so, the stock has really taken off by appreciating ~50% thanks partly to some multiple expansions.

The Street consensus from **Thomson Reuters** has a 12-month price target of US\$46.60 per unit, which represents ~7% upside potential, or a total return of ~11%. Not surprisingly, for analyst ratings, there's one strong buy, six buys, and two holds, and no sells on the quality stock.

Long-term accounts can consider starting a position here and average in over time. Investors looking for a bigger margin of safety should wait for the stock to [dip meaningfully](#) before buying.

Although Brookfield Infrastructure is closer to pricey than cheap, I continue to hold the stock for its predictable business performance and growing distribution. The stock offers a yield of ~4%, and management foresees growing its distribution per unit by 5-9% per year.

### 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

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