



1 Top Stock to Beat the Market

Description

It has been a bumpy start to the year for Canadian investors with the TSX pulling back sharply since January 2018 to see the **S&P/TSX Composite Index** down by over 3%. The poor performance of the TSX compared to other markets, such as the NYSE, where the Dow Jones Industrial Average has remained flat, can be attributed to the concentration of mining and energy stocks in the Canadian market.

This makes it important for investors to diversify across asset classes and [geographical jurisdictions](#) to beat the market. One of the easiest means of doing so without leaving the comfort of Canada is by investing in **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)).

Now what?

Brookfield Infrastructure owns and operates a globally diversified portfolio of critical infrastructure assets, including ports, railways, toll roads, telecommunications towers, and utilities across North and South America, Europe, Australia, and Asia.

While the partnership has underperformed the S&P/TSX Composite over the last three months, falling by 6% compared to the index's 3.5%, it does have a long history of beating the market. Over the last 10 years, it has delivered a remarkable return, including distributions of 418% compared to the S&P/TSX Composite's paltry 19%.

The partnership has been able to achieve this through its strategy of making accretive acquisitions and recycling capital, which has seen its earnings grow at a rapid clip. For the full year 2017, Brookfield Infrastructure's net income grew by 9% year over year to US\$574 million, or more than eight times what it was in 2013, while funds flow from operation (FFO) grew by a healthy 14% for the same period.

The marked growth in Brookfield Infrastructure's bottom line can be attributed to a significant lift in the performance of its utilities business. That segment's net income increased by US\$211 million, or an impressive 58% compared to a year earlier, because of the additional contribution made by the recently acquired Brazilian regulated gas transmission business.

There is every sign that Brookfield Infrastructure is capable of maintaining that impressive growth trajectory, particularly as it identifies new opportunistic acquisitions.

The partnership finished 2017 with US\$2 billion of liquidity, and that will be boosted by the December 2017 sale of its 28% interest in Chilean electric transmission business Transelec for US\$1.3 billion. That transaction is expected to be completed in the first half of 2018.

Brookfield Infrastructure also entered an agreement in November 2018 to acquire a 53% controlling interest in Colombian regulated natural gas transmission business Gas Natural S.A. ESP. As part of its staged approach to completing asset purchases, Brookfield Infrastructure and its institutional partners had acquired 11% of the utility with a view to buying more, which could result in the partnership owning all of the business. That deal will give it exposure to the rapidly developing Colombian economy, which is poised to return to growth as oil prices rise.

Brookfield Infrastructure's solid 2017 performance allowed it to reward investors with another distribution hike, boosting it by 8% compared to a year earlier, giving the partnership a tasty yield in excess of 4%.

So what?

A notable characteristic of Brookfield Infrastructure is its wide economic moat created by the steep barriers to entry for the industries in which it operates. This protects its earnings, and when combined with the relatively inelastic demand for the utilization of its assets because of their critical nature to economic activity, it means that Brookfield Infrastructure is [relatively immune](#) to economic downturns. Each of these factors makes it likely that Brookfield Infrastructure can achieve its objective of FFO growth of 6-9%, which should see it outperform the market.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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