Focus On the Business, Not the Stock

Description

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP) stock is trading roughly ~2.5% higher than it was a year ago. It sure seems like the stock hasn't done much. But here's the thing: investors should be focusing on the business, not the stock.

Booking profits

Investors can count on Brookfield Infrastructure's management to make smart decisions about its capital allocation. Just last month, the company sold a mature business, its 27.8% interest in a Chilean electricity transmission business, for US$1.3 billion to a Chinese company.

Brookfield Infrastructure got an excellent return on its investment — roughly 16% per year after tax. It's expected that the net proceeds from the sale will be reinvested for higher returns, which should benefit unitholders down the road.

Distribution increases

It’s evident that the management cares about its unitholders. After all, **Brookfield Asset Management**, the general partner and manager, owns a big piece of Brookfield Infrastructure — a 30% stake to be exact. So, when the management increases Brookfield Infrastructure’s distribution, it is also increasing its own income.

In fact, the infrastructure company has increased its distribution for 10 consecutive years so far with a three-year dividend-growth rate of 10.8%. By the look of things, more distribution increases will materialize in the future.

Brookfield Infrastructure seems to have an affinity to hike its distribution in the first quarter. Indeed, last quarter, the company increased its distribution by 8%. The distribution is solid because it’s backed by a funds from operations payout ratio of ~70%.

Brookfield Infrastructure owns and operates a globally diversified portfolio of quality, cash-cow infrastructure assets in different sectors, including utilities, energy, transport, and communications. That’s why it can afford a ~70% payout ratio.

If Brookfield Infrastructure is so good, why has its share price stagnated?

In 2017, the stock delivered a total return of 40% on the New York Stock Exchange and 31% on the Toronto Stock Exchange. No matter if you compare the results to utility indices or the general market, the stock outperformed hand over fist. For comparison, the **S&P 500 Index** and the **S&P Utilities Index** returned 22% and 12%, respectively, in the period.

When a stock outperforms because the business has been doing well, sometimes the share price runs ahead of the company’s earnings. I believe that may be the case with Brookfield Infrastructure.

Does it mean it’s time to sell the stock?

It depends on why you bought the stock in the first place. Personally, I truly believe it’s a great company and consider it a core long-term holding. Right now, it offers a pretty good yield of ~4.5%. Moreover, management is committed to growing its distribution by 5-9% per year going forward.

Stocks can be overvalued, fairly valued, or undervalued at any given time. Brookfield Infrastructure isn’t excessively overvalued. In fact, the analyst consensus from **Thomson Reuters** indicates that there’s ~12% upside to the stock in the next 12 months. So, there’s no reason for me to sell because I’m happy holding the stock with a yield of ~4.5%, which is set to grow.

If I were to add to the stock, though, I’d look for a bigger margin of safety.

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