



If I Could Only Buy 1 Stock, it'd Be Brookfield Infrastructure Partners L.P.
(TSX:BIP.UN)

Description

Think for a moment of all the essential infrastructure the global economy requires to function: roadways and railways, ports and pipelines, electrical transmission and distribution systems, telecommunications infrastructure...

Without these essential assets, the economies globally would essentially shut down.

Brookfield Infrastructure Partners ([TSX:BIP.UN](#))([NYSE:BIP](#)), or simply BIP, owns and operates a global portfolio of premier, long-life assets with attractive attributes, as they are or will

- Diversified by both geography and industry;
- Typically regulated or contracted on a long-term basis;
- Require relatively minimal maintenance capital expenditures;
- Generate stable cash flows; and
- Continue to appreciate in value over time by virtue of high barriers to entry and steady, predictable returns.

User demand for infrastructure assets tends to be relatively inelastic because of the essential nature of many of the services. As a result, they exhibit a lower correlation to economic cycles compared to other sectors. Some assets, such as electricity and gas distribution networks are usually regulated, which usually results in an increase in the predictability of return.

BIP invests in a diversified portfolio of infrastructure or “real assets,” including ports, railroads, utilities, toll roads, pipelines, data centres, and telecom towers. Not only are they essential assets, but they also offer high barriers to entry and long-term, stable cash flows that are regulated or underpinned by take-or-pay contracts.

[BIP's strategy](#) is to acquire high-quality businesses on a value basis, actively manage operations, and opportunistically sell assets to reinvest capital into the business. BIP units began trading on the New York Stock Exchange in 2008 and on the Toronto Stock Exchange in 2009. The company has

established a solid performance record, delivering compound annual total returns of 15% since it first went public.

Brookfield Asset Management (BAM) is a strong partner to BIP. Not only does it provide management guidance and assistance, but together, they excel at scouring the globe to uncover and acquire high-quality companies at attractive and, at times, distressed prices.

Institutional partners are a key to doing deals, particularly in weaker equity markets. The BAM-led private infrastructure funds nearly always invest alongside BIP, so BIP is less dependent on the state of the capital markets because of its relationship with BAM.

Having access to private capital allows BIP to participate in acquisitions, even in weak equity markets, and take on larger deals, while BAM's broader funds outside infrastructure means that BIP can enter complex transactions that other strategic investors may not be able to execute; for example, to put infrastructure assets into BIP and non-infrastructure assets into a BAM-led private equity fund. BIP's primary objective is to invest globally at the best risk-adjusted returns, meaning it is typically agnostic about its geographic mix of assets.

Investment thesis

User demand for infrastructure assets tends to be relatively inelastic because of the essential nature of many of the services. As a result, they exhibit a lower correlation to economic cycles compared to other sectors. Assets such as electricity and gas distribution networks are usually regulated, which results in increased predictability of returns.

BIP units represent a good combination of yield plus growth. The company's objective is to generate long-term return on equity of 12-15%. With an above-average distribution yield of 3.47% and annual distribution growth that should continue to be at the high end of management's 5-9% guidance range, the units should outperform the broader market.

The company's broadly diversified source of funds from operations (FFO), solid balance sheet, and healthy organic growth outlook continue to make BIP an outstanding candidate as a core infrastructure position in any diversified portfolio.

Growing organically and through acquisitions

BIP's [current pipeline](#) of advanced transactions totals approximately \$1.7 billion. It has signed binding agreements for three recently announced transactions representing \$1.3 billion that expand its energy and data infrastructure operating groups. The three large-scale North American transactions include a U.S. data centre business from **AT&T**, a Western Canadian midstream business from **Enbridge**, and a North American residential energy infrastructure business from **Enercare**.

These new investments will be funded from the \$4 billion of liquidity on its balance sheet. BIP's strong backlog of capital projects across its operating groups — with another \$400 million of initiatives under exclusivity and in the final stages of due diligence — will allow BIP to continue to grow cash flow.

Solid second-quarter 2018 results

BIP generated FFO of \$294 million, or \$0.75 per unit, in the second quarter of this year [versus \\$295 million or \\$0.80 per unit in Q2 2017](#)

. While second-quarter FFO benefited from another period of good organic growth, it was impacted by the loss of income associated with the sale of the Transelec assets and the time required to redeploy the significant proceeds into new investments.

Also affecting second-quarter results was a stronger U.S. dollar, which reduced FFO by about \$26 million. On a constant-currency basis, organic growth was 8%. On an adjusted basis, BIP earned \$0.21 a share in the second quarter, beating analysts' expectations for \$0.12 a share.

Almost half of BIP's EBITDA is from low-risk, regulated operations, while another 45% is governed by long-term contracts, providing stability and predictability. These attributes contribute to minimizing competition and enhancing the stability of returns.

I expect BIP to generate continued cash flow growth from the combination of accretive acquisitions; regulatory frameworks and contractual structures that provide for annual inflationary growth; assets with fee-based revenues that are sensitive to GDP; capital deployment into existing businesses; and larger capital projects leveraging off the existing businesses.

The balance sheet is in good shape; BIP ended the quarter with total liquidity of \$4 billion — more than sufficient for the company to fully fund all its committed transactions and organic growth backlog.

While BIP carries excess liquidity, the company is progressing its next phase of capital recycling, with a target of approximately \$1 billion of proceeds over the next six to 12 months to capitalize mature investments and fund further accretive growth initiatives.

CATEGORY

1. Investing

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