These Buy-and-Hold-Forever Stocks Are on Sale

Description

The Canadian market experienced a correction of about 15% from the market peak in July/August. I don't think it was a coincidence that that was a peak, because a big part of the TSX Index consists of energy stocks, which tend to be seasonally strong in the summer.

In a market correction, almost no stocks are exempt from declines. So, it's a great time to buy proven businesses, including **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), as they have declined about 20% and 14%, respectively, since the summer. Both are quality companies that are candidates to be bought on sale and can be held essentially forever.

Right now, both *are* on sale.

Why Brookfield Infrastructure is a buy-and-hold-forever stock

Over the long run, Brookfield Infrastructure has outperformed its utility peer group by a wide margin. For example, as at the end of September, its 10-year annualized total returns were 17% on the NYSE and 25% on the TSX, which greatly outperformed the **S&P Utilities Index** and **S&P/TSX Capped Utilities Index's** annualized total returns of 6% and 8%, respectively. Note that Brookfield Infrastructure's returns were higher on the TSX with the help of a stronger U.S. dollar.

Brookfield Infrastructure's assets are globally diversified across leading utilities, energy, transport, and data infrastructure operations. They are high-margin businesses supporting increasing cash flows as a whole. Its EBITDA margin improved from 53% to 56% between 2013 and 2017. Brookfield Infrastructure pays a generous dividend from a big portion of its cash flow. Cash flow growth allowed for the dividend growth of about 12.8% per year on average over a nine-year period.

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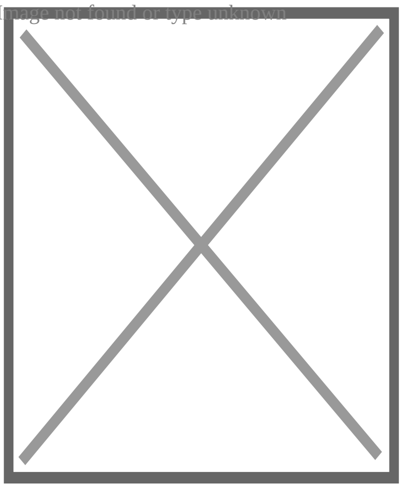

Why TD Bank is a buy-and-hold-forever stock

Recently, TD Bank flexed its muscles by overtaking **Royal Bank's** first place in terms of having the most total assets and deposits in Canada. As of the end of fiscal 2018 (the end of October), TD had total assets of $1,334.9 billion and total deposits of $851.4 billion.

The leading bank has become the fifth-largest North American bank by total assets. It generates about a third of its earnings from the United States. The U.S. economy is the world's largest with real gross domestic product that's about 9.8 times that of Canada's.

Moreover, the U.S. economy remains strong, as signified by a low unemployment rate of about 3.7% and the Federal Reserve increasing the benchmark interest rate for the fourth time this year earlier this month to 2.5%.

TD's dividend is safe and growing. As far as the historical data shows on its website, TD has maintained or increased its dividend every year since 1969. The quarterly dividend per share is 186 times what it was 49 years ago! In other words, it has increased at a compound annual growth rate of 11.26% over the period, which is greater than two times the long-term rate of inflation.

If you'd bought the stock 20 years ago, your income from the stock would still be 7.88 times your original investment. It goes to show that the effects of compounding become more and more powerful the longer you stay invested in great companies.

Both stocks are on sale with juicy dividend yields

Thomson Reuters's 12-month mean target on Brookfield Infrastructure indicates the stock is undervalued by almost 29% on a forward basis. Because Brookfield Infrastructure is on sale, you can now buy the stock with a starting yield of 5.8%, which is quite attractive. Its recent funds from operations payout ratio was 76% (including general partner incentive and preferred unit distributions), which is sustainable.

Brookfield Infrastructure aims to increase its cash distribution by 5-9% per year. Because its recent payout ratio was 76%, which was below its target range of 60-70%, we could see the company increase its cash distribution by about 5-7% next year.

Reuters's 12-month mean target on TD indicates the stock is undervalued by almost 23% on a forward basis. Because the leading bank is on sale, you can now buy the quality stock with a starting yield of almost 4.1%, which is attractive.

TD's recent payout ratio is about 40%. With estimated long-term earnings growth of 7-12%, investors can expect TD to increase its dividend by at least 7% per year for the next three to five years.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:TD (The Toronto-Dominion Bank)

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