



1 Top Defensive Income Stock to Hedge Against an Economic Downturn

Description

Fears of a U.S. recession and ensuing global economic slump gained momentum last week when the yield curve inverted. This [signal](#), which occurs when short-term treasury notes yield more than longer-term instruments, has long been recognized as a harbinger of a recession.

There is considerable speculation as to whether this signals that such a downturn will occur, but it does indicate that financial markets expect the economy to weaken over the long-term. This has sparked a flight to safety among investors helping to buoy gold prices. While the yellow metal is the most [widely recognized](#) safe-haven asset, infrastructure assets with utility like qualities offer a superior alternative. It is here that **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) stands out.

Low-risk assets

The partnership owns and operates a globally diversified infrastructure that's critical to modern society and economic activity. Those operations span North and South America, Western Europe, India and Australia, giving Brookfield Infrastructure direct as well as indirect exposure to a range of developed and emerging economies. The partnership's assets span ports, toll roads, energy utilities, data centres and telecommunications towers.

Brookfield Infrastructure possesses a wide moat and operates in an oligarchical industry that allows it to be a price maker and generates a large portion of its earnings from contracted sources. When coupled with the inelastic demand for the utilization of its assets, those characteristics protect its earnings and shield Brookfield Infrastructure from downturns in the economic cycle.

The fact that its business is highly diversified across jurisdictions and industries helps to significantly mitigate risk, as there is little correlation between the performance of developed and emerging economies, meaning that a recession in Canada or the U.S. will have less impact on the economic performance of Brazil, Peru, Colombia and India.

By reducing dependence on a single or small group of economies and diversifying across industries as

well as counter parties, Brookfield Infrastructure significantly reduces key dependency as well as financial risk. That means a downturn in one nation or industry will have little negative effect on the partnership's earnings.

For 2018, Brookfield Infrastructure's utilities business was responsible for 45% of its EBITDA, while transport contributed 42%, energy 20% and the remainder came from its data centre operations. The partnership also has a solid balance sheet, ending 2018 with net debt of US\$10 billion, or a manageable six-times EBITDA and cash totalling US\$540 million. Its debt profile is also well laddered with no material maturities until 2022.

Considerable growth ahead

On top of these solid defensive characteristics, Brookfield Infrastructure possesses significant growth potential. A powerful tailwind for the partnership is the ever-widening global infrastructure gap, which, according to consultants McKinsey & Company, represents a spending shortfall of US\$5.5 trillion annually. Roughly 30% of that gap is caused by a lack of spending in rapidly growing Asia.

Ongoing fiscal constraints mean that governments across the world lack the capability to close the gap, making them ever more reliant on the private sector to boost spending and provide urgently needed economic infrastructure.

This has created a powerful long-term tailwind for Brookfield Infrastructure, which has demonstrated that it is adept at making opportunistic acquisitions and recycling capital from mature to undervalued assets.

Why buy Brookfield Infrastructure?

Brookfield Infrastructure has been growing its EBITDA at a healthy clip. For 2018, it announced adjusted EBITDA of US\$1.6 billion, which was a 3% increase over 2017. It also reported that since 2013, EBITDA has grown at a compound annual growth rate of 7%.

This means that Brookfield Infrastructure is well positioned to keep [growing](#) if the pundits have it wrong and a recession doesn't occur. While investors wait for the partnership's stock to appreciate, they will be rewarded by its sustainable steadily growing distribution, which is yielding a very tasty 5%.

CATEGORY

1. Dividend Stocks
2. Investing

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