TFSA Investors: This High-Yield Dividend Stock Can Also Serve Your Portfolio's Defensive Needs

Description

Last week, equity markets saw some of their worst days since the beginning of the year. The Dow Jones had its worst drop since mid-2016, and the S&P 500 index dropped by its biggest one-day percentage in over two years. These troubles weren't just in the U.S., though, with the S&P/TSX composite index seeing a sharp decline on Friday.

Despite equity markets doing well since January, last week was a reminder that potential bear market runs are always around the corner. It is essential for investors to build their portfolios with that in mind, which means purchasing defensive stocks that can help smooth out market losses. Let's consider a company whose stocks can provide this sense of security along with a stable stream of dividend payments: **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP).

A strong business model

Brookfield's strength revolves around the company's core operations. Brookfield owns and operates infrastructure assets in various industries, including utilities, energy, transport. Of course, there is no shortage of assets to be owned in these industries, so Brookfield can continue growing by way of acquisitions. The company also benefits from the inherent advantages of the industries in which it operates.

There is always a high demand for energy and utility products regardless of economic conditions. This factor is critical since Brookfield makes the bulk of its revenues by collecting fees from businesses that operate using its assets. The company's diversified portfolio allows it to continue generating strong funds from operations (FFO), even in times of economic downturn. Brookfield's FFO has increased by 70% over the past five years.

Brookfield is up about 13% since the beginning of the year, which is relatively unimpressive compared to global market indexes. While the Toronto-based company isn't likely to trounce the performance of the markets when they are hitting highs, Brookfield is also less likely to suffer catastrophic losses when markets crash.

Stable dividends

One of Brookfield's most attractive qualities is its stable dividends, which are backed up by growing cash flows. Brookfield's quarterly dividend payouts have increased by almost 90% over the past 10 years. What's more, the company pays out a conservative 60-70% of its FFO as dividends, which means there is plenty of room for growth.

There is one reason to be wary of Brookfield. The company currently trades at about 91 times past earnings. That may be justified, though, given the company's prospects.

The bottom line

Brookfield probably won't make you rich, or at least there are better high-growth stocks on the market if that is your goal. But the company has a strong and scalable business model, growing cash flows, and offers an excellent dividend yield of 4.9%. Brookfield's dividends have the potential to continue growing for years; whether you are looking for a defensive stock to protect yourself against a potential market downturn — or a great dividend stock for your TFSA — Brookfield is the way to go.

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Date
2025/07/07
Date Created
2019/03/28
Author
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