Latest Results Highlight Why This 5% Yield Belongs in Every Portfolio

Description

Leading globally diversified infrastructure provider **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) reported a solid start to 2019. This emphasizes why it should be a core holding in every portfolio.

Solid results

For the first quarter 2019, Brookfield Infrastructure reported a 5% year over year increase in funds from operations (FFO) to US$355 million and net income of US$30 million. While its net income was a seventh of the US$209 million reported for the equivalent period in 2018, it represented a significant improvement because that earlier amount was a one-off generated by the sale of Brookfield Infrastructure's Chilean electricity transmission assets.

The two business segments responsible for Brookfield Infrastructure's improved results were its energy and data infrastructure operations.

Adjusted FFO (AFFO) from the partnership's energy business grew by a notable 62% year over year to US$99 million. That significant increase can be attributed to the contribution of the Western Canadian midstream natural gas business acquired by Brookfield Infrastructure in late 2018 from **Enbridge**. Higher transportation and storage volumes along with increased pricing also helped to boost that segment's earnings.

A combination of growing domestic natural gas production and high levels of existing pent-up demand caused by a lack of pipeline infrastructure will drive higher throughput in coming months, giving earnings a further lift.

Segment earnings will be further bolstered by Brookfield Infrastructure's latest energy acquisition, an Indian natural gas pipeline where it invested US$230 million. That deal will boost its exposure to the world's fastest growing major economy boding well for further earnings growth.

Meanwhile, Brookfield Infrastructure's data infrastructure business saw its AFFO expand by an impressive 63% to US$26 on the back of recently added data centre assets in the U.S. and Asia Pacific. Earnings from this segment will continue to grow because of the recent US$770 million addition of a Brazilian datacentre business, of which US$200 million was contributed by Brookfield Infrastructure, as well as the investment of US$180 million in expanding its telecommunication infrastructure.

The partnership is also scouting for additional tuck-in acquisitions to complement this deal and scale up the business presence in South America. It will also provide it with further opportunities to unlock synergies from those assets, thereby boosting FFO and EBITDA.

This is an exciting industry for Brookfield Infrastructure to enter because demand for telecommunications and data infrastructure in our information dependent age will continue to grow at a rapid clip.

That means this business will become an important growth driver for the partnership, particularly with many telecommunications providers looking to detach costly infrastructure such as telecommunications towers and data centres from their front-end services.

Growing infrastructure gap

The ever-widening global infrastructure gap**,** which according to the World Economic Forum will reach a spending shortfall of US$15 trillion by 2040**,** will serve as a powerful tailwind for Brookfield Infrastructure. This is because ongoing fiscal constraints continue to impact government spending worldwide, meaning that public private partnerships may be the only way to effectively bridge the gap.

As a leading publicly traded business with an extensive global presence and strong experienced management team, Brookfield Infrastructure could very well become the partner of choice for many governments.

Strong balance sheet

Brookfield Infrastructure also finished the first quarter 2019 in sound financial condition, with corporate cash and financial assets of US$482 million compared to US$238 million at the end of 2018. When coupled with the available balances of existing credit facilities, Brookfield Infrastructure has total available liquidity of US$3 billion. That leaves the partnership well-positioned to make further accretive and opportunistic acquisitions as they arise. Brookfield Infrastructure also has a well-laddered debt profile with no material maturities until 2023.

Pulling it together for investors

While investors wait for these positive catalysts to propel the partnership's earnings and hence send the stock price higher, they will be rewarded by its steadily growing distribution. Brookfield Infrastructure has hiked its distribution for an impressive 11 years straight to see it yielding a very juicy 5%, and it's highly likely that it will continue to increase that payment.

For the reasons discussed above, every investor should hold Brookfield Infrastructure as a core investment.

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