An Infrastructure Stock That's a Good Bet for Your TFSA

Description

If you plan to use your Tax-Free Savings Account (TFSA) to build long-term wealth, one important element of your strategy should be to diversify your holdings. That means not putting your eggs in one basket and buying stocks that could provide a hedge when the main market is under pressure.

Unfortunately, there aren't many diversification opportunities available in Canada, where the benchmark index is heavily exposed to energy, mining, and financial stocks.

Today, I want to introduce to you the Toronto-based **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP), a company with a unique business model that allows investors to take exposure to the company's very diversified operations.

BIP owns and operates utilities, transport, energy, and communications infrastructure companies globally. BIP manages about US$30 billion portfolio with assets spanning five continents.

The company manages utilities and power transmission system in North and South America, 37 ports in North America, the U.K, Australia and Europe, approximately 3,800 kilometres of toll roads in South America and India, and large rail operations in Australia and South America.

In a deal announced early this month, Brookfield agreed to buy **Genesee & Wyoming Inc.** for about US$6.3 billion, expanding its global portfolio of rail companies with a 120-line network.

Singapore sovereign wealth fund **GIC Pte** will join Brookfield and other partners in a consortium to manage the rail lines that come with 3,000 customers and a resilient cash flow.

Growing distribution

With all these acquisitions in the infrastructure space, the company's main objective is to generate a long-term return of 12 -15% on equity and provide sustainable distributions for investors while targeting annual distribution growth of 5-9%.

According to Brookfield, its strategy is to acquire high-quality businesses on a value basis, actively manage operations and opportunistically sell assets to reinvest capital into the business.

When you look at numbers, there is no doubt that the company has been successfully executing its plan. Since 2008, it has delivered compounded annual total returns of 15%.

Predicable and growing cash flows

These companies are great for your TFSA, as they generate predictable and growing cash flows that allow them to regularly hike dividends. In Canada, such an ideal combination is hard to find in a single company, but here is a great dividend stock that I find worth considering for your TFSA.

Bottom line

With its enduring competitive advantage, BIP a perfect stock for any TFSA. These utilities, power lines, and toll roads require a lot of investment, and not everyone can challenge the company's first mover advantage.

After more than 25% surge this year, BIP stock is trading close the analysts 12-month price target, and it may not be the right time to buy this stock. At $58.15 a share, this stock now yields 4.56% with an annual payout of $2.63 a share. But if your horizon is long-term, BIP yield still looks attractive even after the powerful rally.

CATEGORY

1. Dividend Stocks
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