



The Infrastructure Stock That Should Be in Every Investor's Portfolio

Description

Infrastructure companies are a great way for investors to own equity securities with minimal risk. Infrastructure companies tend to be very defensive since a lot of the revenues are long-term contracts, and they're important staples of the economy.

One of the best infrastructure companies out there is **Brookfield Infrastructure Partners** ([TSX:BIP.UN](#)) ([NYSE:BIP](#)).

[Brookfield Infrastructure](#), like all the other companies under the Brookfield banner, is extremely well run, has solid operations, and has great capital efficiency. BIP has four main business segments it operates through; utilities, transport, energy, and data infrastructure.

Utilities

The utilities business operates on four continents. Many of the contracts have inflation clauses, so the company has a steady increase in cash flow that is inflation proof. It has approximately 6.7 million electricity and gas connections as well as 2,000 km of regulated natural gas pipeline.

In addition, there is also 2,200 km of electricity transmission lines. The utilities segment has \$4.7 billion of total rate base and does about 38% of company-wide funds from operations (FFO).

Transport

The transport segment owns and operates port, rail and toll road assets. The businesses are linked to the transport of freight, bulk commodities and passengers. It has 10,300 km of rail operations in Australia and South America, 4,200 km of toll roads in South America and India, and 37 ports located in North America, Asia, and Europe. The transport segment accounts for about 35% of company-wide FFO.

Energy

The energy business operates in Canada, the U.S., and Australia. It has the benefit of having long-term contracts with large customers, which give it plenty of stability. It has 16,500 km of natural gas pipeline, 600 bcf of natural gas storage, and 1.6 million residential customers.

The company recently acquired Gas Natural Colombia, the second-largest gas distribution company in Colombia. It has over 21,000 km of pipeline and serves 2.9 million customers.

In the last three years, Brookfield has mainly focused on growing its midstream energy business. In 2015, just \$500 million was invested, which generated just 5% of FFO for the company. Fast forward to the present, the energy business now does approximately 21% of FFO on a total of \$3.2 billion invested.

Data infrastructure

Finally, the last segment is data infrastructure. Brookfield owns and operates businesses that offer services and infrastructure to store and transmit data around the world. It has 7,000 multi-purpose towers, 10,000 km of fibre, and 52 data centres. The data segment for Brookfield is still relatively small, doing just 6% of company FFO.

Past performance

The company has a history of increasing its distributions to shareholders. In 2018, the company raised its dividend again, this time by 8%. That dividend increase brought the company's 10-year compounded annual growth rate (CAGR) of the dividend to 11%.

In addition to the massive growth in the dividend, the company has also grown its returns on its investments. For the last 10 years, BIP has annualized returns of 25% and five-year annualized returns of 20%.

The incredible returns are a combination of investments at valuable prices, strong operating expertise, which increases margins over time, and a conservative decision-making process.

BIP hedges about 80% of FFO so that it's either coming from or hedged to the U.S. dollar. In addition, 90% of the company's debt is fixed rate. Furthermore, the company has continued to find ways to reduce risk by diversifying its cash flows geographically. 20% of cash flow comes from the Asia Pacific region, 30% comes from South America, and it gets 25% for each North America and Europe.

The capital-allocation plan is also very strategic with Brookfield planning on using 20% of FFO for maintenance, 15% for funding of recurring growth capex, while the remaining 65% gets distributed back to unitholders.

Bottom line

All in all, Brookfield Infrastructure is a great company that should be in every investor's portfolio. It has the perfect combination of good assets, solid operations, and a strong capital efficiency, which make it one of the best investments available on the market.

CATEGORY

1. Dividend Stocks
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