Use Your TFSA to Turn $6,000 Into $100,000 in 6 years

Description

Near to historically low interest rates combined with the Fed's latest cut and dovish approach means that traditional income paying investments such as bonds and guaranteed investment certificates (GICs) are delivering poor yields.

This has caused the popularity of stable dividend paying stocks such as utilities and real estate investment trusts (REITs) to soar.

A stock with a proven history of rewarding investors through a combination of strong capital appreciation and regularly growing distributions is **Brookfield Infrastructure Partners** (TSX:BIP.UN)(NYSE:BIP).

The partnership, which owns a globally diversified portfolio of critical infrastructure, is one of Canada's best growth stocks and possesses solid defensive characteristics, making it highly resistant to economic downturns.

One of the best investment vehicles in which to hold a Brookfield Infrastructure is a tax-free savings account (TFSA). This is because of their tax-sheltered nature, which means that all distributions and capital gains received are tax-free for life, thereby removing one of the greatest destroyers of wealth: taxes.

The primary constraint on investing in a TFSA is the contribution limit, which for 2019 is $6,000. That limit increases every year, with it indexed to inflation and then rounded to the nearest $500.

Solid growth

Brookfield Infrastructure is a solid long-term investment because of its ability to grow earnings at a steady clip which is supported by its wide economic moat that protects it from competition and the considerable demand for the utilization of its assets.

Between 2009 and the end of 2018, the partnership's funds from operations (FFO) had an impressive compound annual growth rate (CAGR) of 18%, while between to 2014 and 2018, its EBITDA had a CAGR of 9%.

Brookfield Infrastructure is poised to continue unlocking considerable value for investors. For the second quarter 2019, FFO expanded by 13% year over year to US$0.85 per unit and adjusted EBITDA shot up by 21% to US$472 million.

Brookfield Infrastructure's utilities, energy and data infrastructure businesses were the key drivers of that significant growth.

Higher earnings were supported by inflation linked contracts, the commissioning of new assets under development and the addition of new infrastructure acquired by the partnership over the last year.

Such solid earnings growth will continue for the foreseeable future. Brookfield Infrastructure remains committed to its capital recycling program, where it sells mature assets and uses the proceeds to fund further opportunistic and accretive acquisitions.

Its latest deals include acquiring a controlling interest in Vodafone New Zealand for US$700 million, the US$5 billion acquisition of North America's largest short haul rail operator **Genesee & Wyoming Inc.** and buying two operational Mexican natural gas pipelines for US$550 million.

Steep barriers to entry protect Brookfield Infrastructure from competition. A growing trillion-dollar global infrastructure gap and the dependence of economic activity on the assets it owns will serve as powerful tailwinds for earnings growth.

Brookfield infrastructure's earnings are highly dependable, with 95% coming from contracted or regulated sources and 75% indexed to inflation.

Those characteristics have allowed Brookfield Infrastructure to hike its distribution for the last 11 years straight, giving it a juicy 4% yield, which, with the partnership's total payout ratio of adjusted funds from operations (AFFO) of 84% is sustainable.

This steadily growing distribution, which Brookfield Infrastructure plans to grow by 5% to 9% annually, combined with the partnership's Distribution Reinvestment Plan (DRIP) allows investors to access the power of compounding and accelerate wealth creation.

DRIP allows investors to use distributions to purchase additional units in Brookfield Infrastructure at no additional cost.

A $10,000 investment in the partnership over the last 10 years where all distributions were reinvested would have delivered an annualized return of almost 24% compared to 21% had the payments been taken as cash.

Foolish takeaway

While there is no guarantee that future returns will be the same as past returns, Brookfield Infrastructure is an ideal investment for investors seeking to build wealth.

If $6,000 is contributed to a TFSA and used to acquire units in Brookfield Infrastructure, all distributions are reinvested and an additional $6,000 is invested annually, then it could take as little as six years to amass $100,000.

That highlights how quickly wealth can be created over the long-term using the right investment.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
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