



A Dividend Stock to Buy and Hold Forever

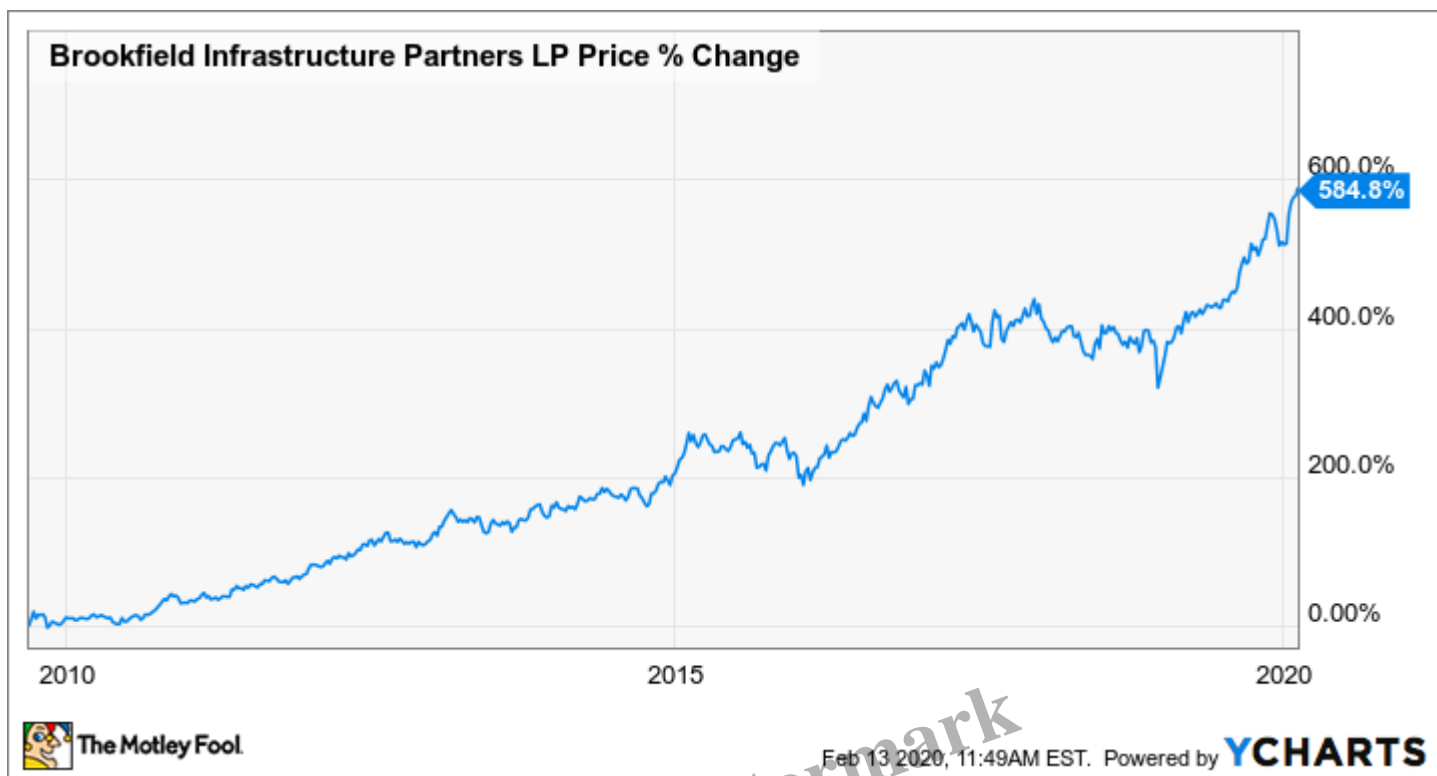
Description

When you get your hands on shares of excellent businesses, do *not* sell, especially if they pay you nice and growing dividends.

Brookfield Infrastructure ([TSX:BIP.UN](#))([NYSE:BIP](#)) is a perfect example of [a buy-and-hold forever dividend stock](#).

Persistent stock price appreciation

Zoom out on BIP's stock chart and you'll see it going up over the long term. A wonderful business should have a chart like this.



BIP.UN data by YCharts. Long-term BIP stock price chart.

You'll find that it would have been an opportune time to buy the stock whenever it dips or consolidates for some time.

The dividend stock had pretty much run up more than 40% since late 2018. So, it may be set up for another consolidation phase, in which the stock pretty much goes sideways.

BIP stock persistently goes up in the long run because it keeps making money — a lot of it, including tonnes that are recurring. In 2019, its funds from operations (FFO) — what its cash distribution is paid out of — increased 12% to US\$1.38 billion.

A growth utility stock that's a golden global opportunity

Brookfield Infrastructure is a global owner, operator, and investor in the infrastructure sector. It has assets in North and South America, Europe, and the Asia-Pacific region across utility, transport, energy, and data infrastructure.

BIP is so diversified that I don't mind my position becoming huge (even four times as big) compared to other core positions. For example, for its transport segment, it has toll road, rail, and port businesses, which could easily have been standalone businesses in which investors bought shares.

Additionally, BIP is an incredible value investor such that it would sell mature or stabilized assets in one country and be able to redeploy elsewhere for higher risk-adjusted returns.

For example, in 2019, BIP sold six mature assets for US\$1.5 billion of proceeds — an after-tax rate of

return of 17%. These proceeds could then be redeployed for attractive returns.

During the year, it also made US\$2.6 billion of new investments, which expanded its data infrastructure segment and added a large North American rail business. They have an average going-in FFO yield of 12% with ample organic growth opportunities.

Growth and dividends

BIP also has strong organic growth; roughly 75% of its cash flow is indexed to inflation. In 2019, it achieved organic growth of 9%!

Combining organic growth with management's extraordinary skills in capital allocation (e.g., investing in the right assets in the right places at the right time), BIP has a solid 10-year track record of growing FFO at a compound annual growth rate (CAGR) of about 17% and increasing its cash distribution at a CAGR of about 11%.

The infrastructure company just increased its cash distribution by 7% — higher growth than other utilities. Extra percentages of growth compounded over many years will generate significant extra income.

Dividends

Currently, BIP offers cash distributions that consist of various sources that may be taxed differently from dividends. However, at the end of March, it will launch a corporation that pays out dividends, simplifying things for many investors who have been waiting on the sidelines because they're unsure about cash distributions.

Greater accessibility to a broader base of investors implies the potential for BIP to more easily raise capital from the financial markets for terrific growth.

BIP currently yields 3.9%, which is more attractive than what the sector is offering — **S&P/TSX Capped Utilities Index** yields about 3%.

Investor takeaway

Although I don't think it's the best time to buy BIP, it's probably not a bad time to start a core long-term position if you have no shares at all. Investors should especially jump on the opportunity if the [quality dividend stock](#) dips 5-15% over the next 12 months.

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