Looking for an Arbitrage Opportunity? 2 Identical Dividend Stocks. 1 With a Substantially Higher Yield

Description

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP) is the infrastructure arm of parent **Brookfield Asset Management**. This unit trust was initially spun off to attract a more diverse investor base. This past year, Brookfield Asset Management has also spun off unit trust **Brookfield Infrastructure Partners** (TSX:BIP.C). This spin-off allowed BAM to issue shares in a corporation that were exchangeable 1:1 with the unit trust.

These two equities have not traded in lockstep. Hence, in this article, I'm going to discuss which is the better option for Canadian investors to own.

Why the discrepancy?

The primary reason for the corporate spin-off was to provide a more favourable way to invest in this asset class for institutional investors. The corporation provides various compliance and tax incentives, particularly for those with U.S. tax-filing requirements. With so much money flowing into Canada from the U.S., this move is indicative of the extent to which the Canadian market is impacted by U.S. investors. Taxes matter, and Brookfield did well to recognize this.

The corporate form of the Brookfield Infrastructure subsidiaries has significantly outperformed its unit trust peer. From the end of March to date, shares of the unit trust have increased around 40% (at the time of writing). But equivalent shares in the corporation were up around 85% at the time of writing. I think these results show BAM has been successful in encouraging increased investment in this arm of the company from a more diverse group. Additionally, I think this outperformance is likely to remain, though to what extent remains to be seen.

Potential for arbitrage trade here

This outperformance of one essentially transferrable asset over another does warrant some eyebrow raising. It doesn't stand to reason that the corporation should outperform to this degree over any significant period of time. This difference does signal the importance of institutional investing in this sector. This also means that retail investors (you and me) need to be aware of how institutional capital flows impact equities like these.

This relative outperformance is reflected in the respective yields of these two equities. The corporation pays out a yield of around 3%, while the unit trust pays a yield of almost 4%. This is a massive difference, and one that could be capitalized on by Canadian income investors right now.

Bottom line

There is a massive amount of room for growth in infrastructure globally. Brookfield Infrastructure (either subsidiary) helps fill this void via private-public partnerships that are in high demand. I expect the demand for these partnerships to increase over time. Additionally, I think the growth Brookfield Infrastructure provides is very safe, given the stability of cash flows created from these projects. The yield Brookfield Infrastructure pays out is therefore extremely stable, being supported by these cash flows.

For those looking for a bit higher yield without tax implications that would nullify the benefits, the unit trust seems like the way to go. Institutional money will flow how it does, but retail investors might have a real opportunity to pick up extra yield for free right now.

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