



1 Top Canadian Dividend Stock Doing More Than Raising its Dividend!

Description

Brookfield Infrastructure Partners ([TSX:BIP.UN](#))([NYSE:BIP](#)) is one of my favourite dividend stocks on the **TSX**. Other than releasing its 2020 results recently, it also announced a dividend increase and a massive acquisition.

A top defensive Canadian dividend stock

Brookfield Infrastructure reported its Q4 and full-year 2020 results last week. The results were super defensive during the pandemic period, because its businesses were deemed to be essential services.

The company reported a net income increase of 69% year over year to US\$394 million. Notably, though, net income is not a reflective measure of the utility's business performance because of its meaningful non-cash depreciation and amortization expenses.

The funds from operations (FFO) is a much better measure. Brookfield Infrastructure increased FFO by 5% to US\$1.45 billion. On a per-unit basis, BIP increased FFO by 2.3% to US\$3.13. Investors should note that a substantial dampener on BIP's FFO in 2020 was the depreciation of the Brazilian real, which reduced its FFO by US\$100 million versus 2019. Were it not for the large depreciation in the real, FFO would have climbed 12%.

Across the four infrastructure industries BIP is involved in, its utilities and transport segments saw marginal declines of about 2% in FFO. However, it saw a meaningful FFO increase of 18% in its midstream segment and explosive FFO growth of almost 50% for its data segment.

Despite challenges in global energy markets, stellar organic growth of 13% contributed to the utility's midstream segment. Furthermore, BIP's data infrastructure operations have been growing at a high rate thanks to organic growth and US\$1 billion of investment capital deployed over the past two years or so.

Dividend increase

Because of BIP's ongoing strategy of value investing, capital recycling, and improving operations, it was able to continue increasing its dividend. Specifically, it raised its cash distribution by about 5% to US\$0.51 per unit. This was its 12 consecutive annual increase, which also implies BIP is a Canadian Dividend Aristocrat.

The annualized payout of US\$2.04 per unit leads to a forward yield of 3.88%. Notably, since it was spun off from **Brookfield Asset Management**, BIP has increased its payout every year.

The top dividend stock is making a massive acquisition

As an experienced value investor, Brookfield Infrastructure began accumulating **Inter Pipeline** (TSX:IPL) shares back in March 2020. If you recall, that was the lowest point in the pandemic market crash. BIP has become the single largest investor of IPL and has accumulated an economic interest of about 19% of Inter Pipeline.

Yesterday, BIP announced the acquisition of the rest of [Inter Pipeline](#) for a consideration of \$13.5 billion with an initial offer of \$16.50 per share subject to regulatory approvals. This offer immediately puts IPL shares at a 23% premium to yesterday's market close stock price.

Inter Pipeline shareholders could take the \$16.50 in cash, or 0.206, of a **Brookfield Infrastructure** ([TSX:BIPC](#))([NYSE:BIPC](#)) share.

The acquisition news could be the catalyst Inter Pipeline shareholders were waiting for in shoring immediate value. IPL stock has delivered the lowest one- and five-year total returns among its Canadian energy infrastructure peers. In comparison, BIP has always outperformed its utility peers and the stock market across multiple periods. For instance, BIP stock delivered five-year annualized total returns of about 20% on the TSX.

Additional information

BIPC has traded at a premium to BIP due to it being popular among investors looking to invest in a corporation (that pays dividends) instead of a limited partnership (that pays cash distributions, which could be taxed differently). At writing, TSX:BIPC trades at a 19.7% premium to TSX:BIP.UN.

BIP made the \$16.50 per share offer based on publicly accessible information on IPL. If given more in-depth information, particularly in IPL's critical Heartland project, BIP could potentially increase its offer price to \$17.00-\$18.25 per share.

What I'm doing

From the [press release](#), it doesn't sound like IPL will be accretive to BIP immediately. IPL's primary source for medium-term growth will come from the multi-year Heartland project.

I've been a long-term (plus five years) BIP shareholder. The outperforming utility has served me well, as I've added to it over the years on meaningful dips. Therefore, I will continue holding the stock no matter what the outcome is for the IPL acquisition. And should BIP dip meaningfully, I would be happy to scoop up more shares.

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2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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