Canadian Investors: Why I Love This Dividend Stock

Description

"Good businesses are generally considered those with strong barriers to entry, limited capital requirements, reliable customers, low risk of technological obsolescence, abundant growth possibilities, and thus significant and growing free cash flow."

Seth A. Klarman is a billionaire investor and hedge fund manager who advocates value investing. When I was re-reading the above-quoted passage that's packed with so much wisdom by Klarman from the preface of the sixth edition of the *Security Analysis* authored by Benjamin Graham and David L. Dodd, teachers of Warren Buffett, one company lit up in my mind — **Brookfield Infrastructures Partners** (TSX:BIP.UN)(NYSE:BIP).

It is a prime dividend stock example with all the goodies in the quote.

High barriers to entry

The utility consists of high-quality assets with significant barriers to entry that are diversified by customer type, regulatory environment, and geography. For example, BIP has a variety of transport assets, including rail, toll roads, and diversified terminals that make up about 36% of the business. Additionally, it has a portfolio of utility, midstream, and data infrastructure assets.

Reliable cash flow

Brookfield Infrastructure has low-maintenance capital requirements. Its maintenance capital spending averaged 19.65% of its funds from operations (FFO) over the past five years. In 2020, it was 19.3%.

Because the utility provides essential products and services for the economy, you can count on its infrastructure assets *not* becoming obsolete due to technological advances.

In fact, about 95% of its cash flow is regulated or contracted. Approximately 75% is indexed to inflation and 65% has no volume risk. Altogether, it generates very reliable cash flow to support its dividend.

Since its inception in 2009, BIP has increased its FFO per unit at a compound annual growth rate (CAGR) of approximately 16%. This also resulted in cash-distribution-per-unit growth of about 10% per year in the period.

Despite a challenging 2020 due to economic lockdowns, the global infrastructure company still managed to increase FFO per unit by 2%. The slow growth more than rebounded by Q1 2021, which saw FFO per unit growth of 20%, thanks to organic growth of 8% and its asset rotation strategy.

The company also maintains an FFO payout ratio of about 70% to keep its dividend safe.

Abundant growth opportunities

Brookfield Infrastructure never runs out of growth opportunities. It is a global business with operations on five continents. Therefore, it can always invest where it makes the most sense with high risk-adjusted long-term returns. Additionally, it can take profit in mature assets to redeploy proceeds into better investments.

For example, in Q1, it started the $5 billion privatization of **Inter Pipeline**, for which it had already acquired a substantial stake of nearly 20% during the pandemic market crash.

During the quarter, it also completed or secured three asset sales that totaled proceeds of US$1.7 billion with an after-tax return of 34% per year and four times the invested capital. At quarter end, BIP had US$2.6 billion of liquidity for potential deployment.

The Foolish takeaway

The BIP management is a value investor at heart. Consequently, they have never disappointed investors in their goal of achieving 12-15% total returns on investments in the long run. Investors simply have to buy the quality dividend stock at a reasonable valuation to get a CAGR of +12% in the long run.

At $54.22 per share, the stock is deemed reasonably valued with a discount of about 8% from the 12-month average analyst price target. Let’s not forget that BIP also provides an initial yield of about 3.8%, and it’s growing its cash distribution per unit by 5-9% a year.

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Date
2025/08/19
Date Created
2021/05/31
Author
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