



Fortis vs. Brookfield Infrastructure: Which Dividend Stock Is a Better Buy?

Description

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) and **Brookfield Infrastructure** ([TSX:BIP.UN](#))([NYSE:BIP](#)) are quality utility stocks that recently reported their third-quarter financial results. As a part-owner with shares in both dividend stocks, I thought it would be interesting to determine if one dividend stock is better than the other. Let's compare the two.

About their dividends

Fortis stock pays out eligible Canadian dividends. It just raised its quarterly dividend by 5.9% this quarter. Its new annualized payout is \$2.14 per share, equating to a current yield of about 3.8%. Its dividend is safe with a sustainable payout ratio of approximately 77% this year.

Brookfield Infrastructure pays out quarterly cash distributions with a yield of 3.4%. However, it will be increasing its payout in the next quarter. Assuming a raise of 7%, the midpoint of its target range of 5-9%, its forward yield would be almost 3.7%. Its cash distribution is secure with a sustainable funds-from-operations (FFO) payout ratio of approximately 58% this year. Management targets a payout ratio of 60-70%. Therefore, BIP's cash distribution is well covered.

Year-to-date results

Year to date, Fortis invested \$2.6 billion, which is on track to meet its target of \$3.8 billion in investments for its capital program for this year. It reported adjusted earnings-per-share (EPS) growth of 4.3% to \$1.96. So far this year, Fortis's adjusted EPS growth of about 4% is below its dividend growth. Generally, I want to see earnings growth at least aligning with (if not faster than) dividend growth to help maintain a healthy payout ratio. We shall see if the regulated utility's earnings will catch up in the fourth quarter. At this point, I'm not overly concerned, unless it starts to become a multi-year trend, which I think is improbable.

From Q1 to Q3, Brookfield Infrastructure experienced FFO growth across all segments: utilities, transport, midstream, and data. Year over year, FFO per share climbed 17.2%. Its organic growth for

Q3 was a solid 9%.

Growth potential

Fortis has opportunities to invest across its diversified regulated electric and gas operations in North America. For 2022 to 2026, it has a new \$20 billion capital program that should drive rate-base growth of 6%. Management also reaffirmed its plan to maintain a dividend-growth rate of approximately 6% through 2025.

Brookfield Infrastructure has the competitive advantage of investing globally across multiple infrastructure industries. This year alone, it has raised about US\$2 billion in net proceeds from sales in mature assets. As usual, it will be actively redeploying capital to contribute to long-term growth.

Valuation and near-term returns potential

At \$56.11 per share at writing, Fortis stock is fairly valued with a 12-month total return potential of about 8.5%. At US\$59.65 per unit at writing, BIP stock is fairly valued and can deliver a total return of roughly 10% over the next 12 months. Both [dividend stocks](#) could be a buy or hold depending on interested investors' preference for margin of safety and their financial goals.

The Foolish investor takeaway

Since Fortis stock pays eligible Canadian dividends, investors can hold it in any type of investment account. Because [Brookfield Infrastructure](#) pays out cash distributions, it could be advantageous tax-wise to hold the units in an RRSP or TFSA (over a non-registered account). Talk to a tax professional to be sure. From an investment perspective, BIP has greater flexibility in its global operating and investing strategy. Therefore, if I could only choose one to own, it would be BIP.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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