Which Brookfield Utility Stock Is a Better Buy Today?

Description

Brookfield Asset Management is an excellent manager of alternative assets. In fact, it first managed/operated its own assets. It was so good at it that eventually it got paid to manage assets for others. Often, it earns performance fees for achieving pre-determined returns on the funds.

It also made public listings of some of its operating businesses that are cash cows and pay decent cash distributions. Today, our focus is on utilities **Brookfield Infrastructure Partners** (TSX:BIP.UN) and **Brookfield Renewable Partners** (TSX:BEP.UN), which BAM continues to own large stakes in.

While BAM, BIP, and BEP aim to earn returns of 12-15% on their investments, the latter two provide more stable returns for long-term investors because of their higher yields. At writing, BAM, Brookfield Infrastructure, and Brookfield Renewable yield 1.2%, 3.8%, and 4.2%, respectively.

One key advantage of these utilities is that they enjoy the operational expertise of BAM. So, they have maintained strong balance sheets and an ongoing capital-recycling program to drive long-term returns.

The utilities just reported their third-quarter results this month. Is one a better buy than the other? Let's explore.

Brookfield Infrastructure

Year to date, Brookfield Infrastructure reported funds from operations (FFO) that are 23% higher to US$1.5 billion, resulting in an increase of 12% in its FFO per unit to US$1.99. So, its FFO payout ratio in the period was about 54%.

This year, it secured the sale of four assets that would raise proceeds of approximately US$2.4 billion. It accomplished admirable returns on these investments. For example, it sold U.S. containment terminals for 3.2 times the original invested capital or a 19% rate of return (ROR). It's also booking gains on a Brazilian electricity transmission business for 2.4 times the original invested capital, or a 22% ROR. In local currency, the return would be 35% instead.

This year, BIP is deploying investments of roughly US$2.8 billion across five new investments. The investment-grade utility has ample liquidity of US$3 billion at the corporate level. Since 90% of its long-term debt is fixed rate, rising interest rates would have little impact on its borrowing costs.

Brookfield Renewable

Year to date, BEP reported FFO growth of 8% to US$780 million, resulting in an increase of 8% on a per-unit basis to US$1.21. Consequently, its FFO payout ratio in the period was about 79%.

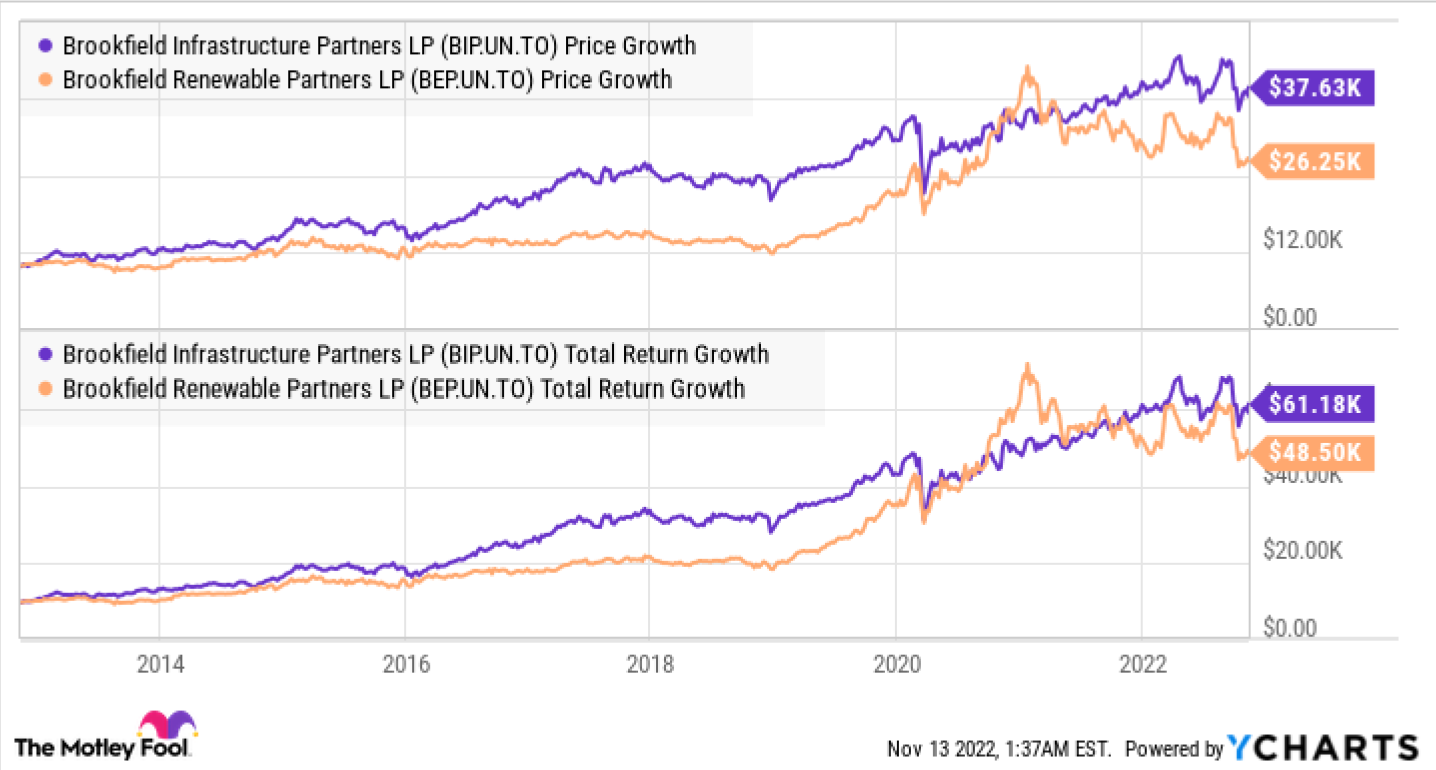
The world is decarbonizing and transitioning to clean energy. BEP is a fitting long-term investment in this growing industry. It's a "clean energy supermajor" with a global scale across 20 countries. It has more than 120,000 megawatts of operating and development capacity across multiple technologies in hydro, wind, solar, distributed generation, and storage. So, we're talking about decades of a mega growth trend.

The Foolish investor takeaway

Since the utilities are in different areas — infrastructure and renewables, they provide portfolio diversification. It makes sense to consider a position in both if they fit your investment objectives.

Between the two, analysts believe BEP is more undervalued with a 24% discount versus BIP's discount of 13%.

Just note that BIP has had more persistent price growth momentum in the last decade, which means investors may need extra patience to be in BEP. Here's a chart illustrating the 10-year growth of an initial $10,000 investment in terms of price and total return.



BIP.UN and BEP.UN data by YCharts

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:BN (Brookfield)

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