



Why Brookfield Infrastructure Partners Stock Rose 11.8% Last Month

Description

Brookfield Infrastructure Partners ([TSX:BIP.UN](#)) stock rose 11.8% last month. Let's wrap our heads around this percentage for a moment. The Canadian stock market returned 8.8% annually in the past 10 years. So, investors could have beaten market returns in just one month.

Such success in so little time came with lucky timing. Specifically, the utility stock declined 18% in 2022 and was trading at its lowest level for the year at the end of December 2022. So, it was setting itself up for a bounce in January.

Of course, not all stocks that decline can recover quickly. Ultimately, sustainable long-term upward trends in stocks rely on the respective underlying businesses to do well.

Among the reasons for stock volatility in 2022 were high inflation and rising interest rates, which weighed on stock valuations. Businesses had to cope with a higher cost of capital as a result. First, cost of borrowing increased from higher interest rates, especially for companies with large debt levels that are exposed to variable interest rates. Second, companies would have raised less money from equity offerings because of lower stock valuations and inflation making money worth less. So, they would have thought three times to decide if an equity offering was really necessary.

The utility business

Over the years, Brookfield Infrastructure Partners has built a fabulous and diversified infrastructure empire. Naturally, its core portfolio is in North America, which generates approximately 44% of its funds from operations (FFO). All four types of its infrastructure assets — utilities, transport, midstream, and data — reside on this continent. It also has operations in Asia Pacific (20% of FFO), South America (19%), and Europe (17%). Each has three types of infrastructure assets.

From 2009 to 2022, BIP grew its portfolio while increasing its cash distribution at a compound annual growth rate of approximately 10%. The utility's results are still excellent. In 2022, it increased its FFO per unit by 12% to US\$2.71. It followed up with a cash distribution hike of 6% this month. The [dividend stock](#) benefited from higher inflation because roughly 70% of its cash flow is indexed to inflation. Of

course, it also continues to prosper from its ongoing capital-recycling program.

The management is a value investor. After acquiring quality assets at good valuations, it optimizes operations to improve margins. Capital recycling allows it to shore up additional value. In the past 13 years, BIP sold 20 businesses with an average rate of return of about 25%, generating gross proceeds of US\$6.8 billion. It's then able to recycle this capital to invest for future growth without necessarily having to raise funds from the capital markets. This is especially critical when capital markets do poorly.

Is BIP stock a good buy now?

Brookfield Infrastructure Partners has proven to become more valuable by expanding its infrastructure portfolio with quality assets over time. In the past 10 years or so, the stock returned 16.8% per year. According to the [Rule of 72](#), it doubled investors' money every 4.3 years or so.

Timing the market is largely based on luck. What investors can do to raise their odd of success is to aim to buy quality stocks like BIP when they trade at a good value. Currently, at \$45.90 per unit at writing, analysts believe the dividend stock is undervalued by about 23%. Combined with its yield of 4.5% and FFO growth, the stock could potentially deliver returns of about 15% per year over the next five years. Now, that's putting the odds in your favour, as is considering these other [best Canadian stocks to buy](#) now.

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kayng

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