



## Brookfield Infrastructure Partners L.P. Keeps Buying What No One Else Wants

### Description

**Brookfield Asset Management Inc.** has a reputation of finding value where others are afraid to tread. It's a value it has instilled on its offspring, which is why it comes as no surprise that its infrastructure arm **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) continues to acquire natural gas storage assets, which are very out of favour by the market. In fact, natural gas storage assets are so out of favour that Brookfield Infrastructure Partners recently offered a 222% premium to buy a natural gas storage company after its asset value had fallen to such distressed levels that even with that premium Brookfield Infrastructure is still buying at a huge discount.

### Falling on hard times

Like most natural gas storage providers, the company Brookfield Infrastructure is acquiring had fallen on hard times. Extremely low seasonal spreads, which is how natural gas storage providers make money, have really impacted the cash flow-generating ability of the company. Further, this weak operating environment resulted in the company writing down the value of its assets, including natural gas in inventory, which had a deep impact on its financial results. This also had a negative impact on the company's liquidity, which is why it had to recently stop cash distribution to its inventors.

As a result of these factors the company's unit price is down more than 75% over the past year, even after accounting for the prodigious premium Brookfield Infrastructure offered. The weak market conditions left it with only two choices. It could try to continue to manage through the operating environment with the hope that conditions would improve, or sell out to a deep-pocketed investor that had the financial wherewithal to endure these tough times.

### Why Brookfield looks for distress

Because of Brookfield Asset Management and Brookfield Infrastructure Partners' history of investing in beaten-down industries, it's no surprise that the current weakened state of the natural gas storage sector has caught their eye. It provides them an opportunity to buy assets for a fraction of their former value. That's evident by the fact that Brookfield Infrastructure is paying just US\$911.0 million for its latest natural gas storage deal for a company that had been worth over \$2 billion just a couple of years

ago.

The reason Brookfield Infrastructure likes to buy at the low point in the cycle is so that it can win twice. First, buying assets at a distressed price enables Brookfield Infrastructure to still generate decent cash flow from the asset after some internal restructuring. Further, because it's buying the assets so cheaply, it can earn a solid return on its investment even if the industry never recovers.

However, its second win comes later on when the market finally does recover. At that point, the assets really begin to pay off via higher earnings, which increases the value of the acquired assets. Brookfield Infrastructure can then cash in on that value by selling the assets at a very rich premium into a recovering market, which it has done many times in the past.

### **Investor takeaway**

The natural gas storage industry is struggling mightily as weak spreads have made it difficult for storage companies to operate. However, distressed environments like this catches Brookfield Infrastructure's eye because it can scoop up assets for a fraction of their former value. The company can then restructure and operate these assets to earn a fairly decent return for investors as it awaits a market rebound.

When that rebound happens, Brookfield Infrastructure can enjoy even stronger returns and eventually cash in on the asset by selling it at a premium. It's an investing strategy that has worked for Brookfield for decades, and more than likely will continue to work for its investors in the future.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/08/16

### **Date Created**

2015/06/24

### **Author**

mdilallo

default watermark