Brookfield Infrastructure Partners L.P. Ups the Ante With its Latest Deal

Description

Fresh on the heels of offering a 222% premium to acquire a natural gas storage operator, **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP) is now seeking its largest deal ever. According to multiple reports, the company is exploring an offer to buy Australian port and rail operator **Asciano** for $8.5 billion. The deal, if successful, would be the second-largest foreign acquisition of an Australian company.

The potential deal is very early in the process as Brookfield and its parent company **Brookfield Asset Management** are said to be seeking the best way to fund the deal. However, if it's complete, Brookfield Infrastructure Partners would really accelerate its growth well beyond what the company was planning for 2015.

Why Brookfield wants Asciano

Asciano's core business is operating port and rail assets in Australia. These are key areas of interest for Brookfield. Not only does the company already operate rail and port facilities in Australia, but it has been specifically targeting additional port and railroad acquisition opportunities in the country as part of its plan to drive total returns of 12% to 15% per year for its investors.

Aside from the fact that these are complementary assets, the other draw of Asciano is the fact that its business has steadily improved over the past five years. Revenue has grown by a compound annual rate of 8.8% while underlying EBIT is up an even stronger 12.9%.

Meanwhile, those earnings should remain solid despite weaker commodity prices of the goods being shipped via Asciano's assets as the company's coal haulage contracts, for example, are backed by long-term "take or pay" contracts that lock in earnings. Brookfield loves to acquire assets backed by these type of contracts because the earnings are so stable, enabling the company to continue growing its distribution.

What's next?

Both Brookfield and Asciano have said that the initial bid by Brookfield was a preliminary offer that was more to gauge Asciano's interest in a merger. However, it's a deal that Asciano is at least considering due to the fact that Brookfield is offering a very hefty 36% premium to Asciano's closing price before the offer was made. That said, both parties still need to do a lot of work before an official agreement can be reached.

First off, other than price, the two need to agree upon the mixture of cash and shares used to fund the deal. Because of Asciano's size, it's a deal Brookfield isn't going to fund itself. Instead, analysts estimate that Brookfield only put up $3.9 billion in cash and stock to fund the deal.

Meanwhile, Brookfield Asset Management is expected to put in another $3.9 billion in cash via its various private equity infrastructure funds. That will leave the pair about $1 billion short, which could be funded by raising additional debt on Asciano's assets, or by selling its bulk and auto port services segment. Further, Brookfield could bring in an outside joint venture partner to help it swallow Asciano.

Investor takeaway

Brookfield Infrastructure Partners told its investors early on that it thought 2015 could be a step-change year for it as it saw a number of potential acquisition opportunities on the horizon. An acquisition of Asciano would certainly be a step-change deal for the company because it would significantly boost the size and scale of Brookfield's port and rail business in Australia.

Further, depending on the deal structure, it would likely enable the company to also significantly boost its distribution to investors given the strong cash flow-generating ability of Asciano's assets. Suffice it to say, if Brookfield is successful, this deal will really drive accelerated growth for the company.

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