



Is Brookfield Infrastructure Partners L.P.'s Bid for Asciano Ltd. on the Ropes?

Description

Brookfield Infrastructure Partners L.P.'s ([TSX:BIP.UN](#))([NYSE:BIP](#)) US\$6.8 billion bid for Australian ports and transportation company **Asciano Ltd.** appears as if it may have come unstuck. In a recent turn of events, the bid, which has been accepted by Asciano, is attracting considerable attention from Australian regulators.

The Australian Competition and Consumer Commission, or ACCC, is concerned that Brookfield's acquisition of Asciano will lead to a significant reduction in competition in the rail and freight logistics industries.

Now what?

The key issues involve Brookfield Infrastructure's acquisition of Asciano's Pacific National Railway business. The ACCC believes the integration of this business with Brookfield's rail network in Western Australia, along with its Dalrymple Bay coal terminal in Queensland, would significantly reduce competition in rail haulage in those states.

This is because Pacific National is one of the two main rail haulage companies in Australia, and its ownership by Brookfield would create a virtual monopoly in Western Australia and Queensland. But how Asciano's rail assets will fit into Brookfield's existing rail haulage and coal loading businesses has always been one of the significant benefits of the acquisition for Brookfield.

ACCC Chairman Rod Sims has gone as far as to say that ACCC's concerns are quite strong, and the best outcome could be for the merger to be avoided.

In response, Brookfield has offered a series of undertakings to the ACCC to ease its concerns over the takeover. At this point, the measures have yet to be formally released, but it is understood that Brookfield is prepared to restrict its dealings with some of Asciano's businesses in order to win approval for the bid.

What is unclear is whether or not this will be enough to get the ACCC on side and approve the bid.

There are other options available to Brookfield. Brookfield could sell other assets such as parts of its Western Australian rail network or Asciano's coal haulage business in Queensland. However, these are extreme options that would be unappealing to Brookfield because it would see it lose some of the important synergies that the acquisition provides.

It will be quite disappointing if the takeover is blocked by the ACCC because the acquisition of Asciano will see Brookfield develop a leading presence in the freight haulage and stevedoring business in Australia. Asciano's Pacific National is one of the largest providers of rail freight-haulage services in Australia, while its Patrick business is a leading bulk-ports and stevedoring operation with a strong presence in Australia and New Zealand.

It is easy to see just how important this acquisition is to Brookfield and its growth ambitions, particularly when you consider how neatly Asciano's assets fit with its existing Australian assets. Australia is also a market that Brookfield knows extremely well, and the takeover of Asciano will give Brookfield high-quality assets that operate in an oligopolistic market at a bargain price.

So what?

At this time it is unclear whether or not the ACCC will block the bid, or if Brookfield's current undertakings will be sufficient to get the deal over the line. What is clear is that the deal is of particular importance to Brookfield's growth plans. It gives Brookfield increased indirect exposure to the growing Asian market. It will also create a leading global freight logistics platform and enhance Brookfield's growth prospects.

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