



Is Brookfield Asset Management Inc. About to Make a \$6 Billion Bet on Brazil?

Description

Brazil is one of the most economically challenged countries in the world at the moment. A weak commodity price environment, high debt levels, and rampant corruption caused a downward spiral in its economy. It is the type of economic environment that most investors try to avoid.

However, for the contrarian-minded **Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)), this is the type of environment where it has had the most success, which is why it is reportedly leading a group of investors to make a \$6 billion bet on Brazil's future.

A once-in-a-lifetime opportunity finally arrives

Earlier this year Brookfield's infrastructure arm **Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) said that it was evaluating "a number of once-in-a-lifetime" opportunities across several sectors in Brazil. It noted that it was "particularly enthusiastic" about gas transmission opportunities mostly because regulated revenue backs these assets. This factor virtually locks in what the company can earn from the asset, significantly reducing its risk.

One of the opportunities that Brookfield appears to have been evaluating was the natural gas pipeline network of troubled Brazilian oil giant **Petrobras Brasileiro SA Petrobras (ADR)** ([NYSE:PBR](#)).

According to a report by *Bloomberg*, a Brookfield-led consortium is close to sealing a \$6 billion deal to acquire an 81% stake in Petrobras's Nova Transportadora do Sudeste. It is an asset that Petrobras wouldn't put on the auction block if it didn't desperately need the cash due to its financial problems, which are forcing the company to pursue a two-year \$15 billion asset-sale program to bolster its financial position.

How it fits into Brookfield

According to reports, Brookfield Asset Management is teaming up with sovereign wealth funds from Singapore and China as well as a U.S.-based private equity fund to acquire the stake in the Brazilian natural gas pipeline network. Brookfield Asset Management likely won't directly invest in the transaction; instead, it will likely use one of its infrastructure-focused private equity funds as the

primary acquisition vehicle.

Those funds are flush with cash after Brookfield Asset Management recently closed a nearly \$12 billion infrastructure fund, which gives it plenty of cash to make acquisitions. Further, as an asset manager, its primary focus is putting clients' capital to work, which enables it to earn asset management fees.

While the report does not specifically note any involvement from Brookfield Infrastructure Partners, it could still be involved in the transaction as a minority investor. Brookfield Asset Management has a long history of using its infrastructure partnership as a co-investor on infrastructure acquisitions.

Further, Brookfield Infrastructure Partners has ample money of its own, especially since it has a diminished role in the buyout of Australian transportation business Asciano due to regulatory concerns.

Aside from the historical precedence and its ample liquidity, this is the type of asset Brookfield Infrastructure Partners likes to acquire. Not only is it backed by regulated revenue, but that revenue has upside as Brazil's economy recovers.

Investor takeaway

It looks like Brookfield Asset Management is about to make a big bet on Brazil. While the rest of the market is worried about the country, Brookfield sees the opportunity to buy exceptional assets at unbeatable prices. It is a philosophy that has served it very well in the past.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

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2. NYSE:BN (Brookfield Corporation)
3. NYSE:PBR (Petroleo Brasileiro S.A. - Petrobras)
4. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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