



Brookfield Infrastructure Partners L.P. Just Made a Major \$6.9 Billion Deal

Description

On September 23, **Brookfield Infrastructure** ([TSX:BIP.UN](#))([NYSE:BIP](#)), in consortium with institutional clients of **Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)), announced an agreement to acquire a 90% controlling stake in Nova Transportadora de Sudeste S.A., a system of natural gas transmission assets in the southeast of Brazil currently owned by **Petroleo Brasileiro SA Petrobras** ([NYSE:PBR](#)).

The purchase price is \$6.9 billion (US\$5.2 billion).

“This is a unique opportunity to invest in a large-scale, high-quality utility business and participate over time in Brazil’s growing gas industry,” said Sam Pollock, chief executive officer of Brookfield Infrastructure.

“We expect this business will contribute meaningfully to our results going forward by delivering stable, inflation-linked cash flows backed by long-term, fixed-price, off-take agreements. We are very pleased to be significantly expanding our utilities business in a sector and geography that we know well and that we believe will offer opportunities to deploy further capital at attractive risk-adjusted returns.”

What should you think about the deal?

The deal is essentially for control of a 2,048 kilometre pipeline system that transports natural gas in many of Brazil’s most industrialized and populated states. These assets are fairly high quality, especially given that most were built in the last 10 years.

As with other major pipeline operators, like **Pembina Pipeline Corp.**, the acquired business doesn’t actually explore and produce oil itself. Instead, it owns and operates pipelines that transport the fuel from production sites to end users.

Pipelines are typically lucrative businesses. They are like toll roads, making them considerably more stable and more profitable than conventional drilling. The acquired assets operate under long-term concessions with revenues derived from five take-or-pay contracts.

The existing contracts already account for 100% of capacity. The terms are also very lucrative.

Brookfield will be entitled to a predetermined return on capital plus recovery of all operating and maintenance costs until the end of the concessions in 2039 through 2041. The weighted average remaining life of the contracts is an impressive 14 years.

In total the deal gives Brookfield

- well-located energy infrastructure assets;
- stable and growing cash flows with no volume risk; and
- a unique opportunity to invest and participate in Brazil's growing gas industry.

Another solid transaction for shareholders

Brookfield bills itself as “a leading global infrastructure company that owns and operates high-quality, long-life assets in the utilities, transport, energy, and communications infrastructure.” With its latest deal, Brookfield lives up to that description.

In total, Brookfield has invested more than \$30 billion in building its asset base, currently generating over \$1.5 billion of annual cash flow for the company. Over the long term, the company is targeting 12-15% annual returns on this capital.

Brookfield remains a solid pick for long-term investors looking to ride global tailwinds.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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