

Brookfield Asset Management Inc. Comes Up Short in Latin America

Description

While leading Canadian asset manager **Brookfield Asset Management Inc.** (TSX:BAM.A)([NYSE:BAM](#)) has closed its share of deals over the years, it fell short in its bid to land **Duke Energy Corp.'s** ([NYSE:DUK](#)) Latin American power assets. That is after the U.S. utility announced two separate deals to sell the assets to other buyers. That said, this does not mean that Brookfield's opportunities to grow its renewable power arm, **Brookfield Renewable Partners L.P.**, are running dry.

Carving it up to boost the price

Initially, Duke Energy was planning to sell its Latin American assets in one transaction where it was hoping to fetch US\$2 billion. However, last week the company announced the sale of its Brazilian business to China Three Gorges Corp. for US\$1.2 billion. China Three Gorges is already the world's largest hydroelectric producer, and that scale will only grow with the addition of Duke's Brazilian power business, which consists of 10 hydroelectric plants in the country.

In addition, Duke announced the sale its power assets in Peru, Chile, Ecuador, Guatemala, El Salvador, and Argentina to private equity firm I Squared Capital. That transaction, which consists of both hydroelectric and natural gas-generation plants, was also for US\$1.2 billion.

Apparently, the combined US\$2.4 billion price tag was above the range Brookfield was willing to pay to boost its presence in Latin America. That is likely because those assets would not produce high enough returns to justify the cost.

Plenty of opportunities in the pipeline

Despite missing out on the Duke Energy assets, Brookfield has plenty of opportunities to grow its renewable portfolio. According to CEO Sachin Shah, the company is "currently active on several large merchant hydro opportunities to grow the portfolio" in North America. In fact, the company just completed one transaction for a hydro portfolio in Pennsylvania. Further, Shah noted that "we're also seeing a meaningful gap between public and private market transactions, in particular, due to balance sheet distress in certain public vehicles."

That is one reason why the company quietly built up a significant stake in **TerraForm Power Inc.** (NASDAQ:TERP), which owns a large portfolio of wind and solar assets in North America. It is currently teaming up with another private equity fund to bid for the company because it sees it as an attractive scale entry into the solar market.

That said, as with the Duke deal, several interested bidders are leading TerraForm Power to consider holding an auction to sell itself to the highest bidder. Such an auction is not something Brookfield wants to see as it would rather negotiate in private.

Finally, Brookfield is looking for other opportunities in Brazil to acquire hydro assets; its preference is to

buy high-quality assets at a significant discount to replacement costs and with limited competition. That might be easier to do on a smaller transaction where it is not competing against larger companies for a needle-moving deal as it was for the Duke Energy assets.

Investor takeaway

While Brookfield lost out on deal in Latin America, it still has plenty of opportunities in the pipeline, including a potential transaction involving TerraForm Power. Additionally, the company has ample liquidity to complete smaller deals in any of its core markets. In other words, it should have no problem continuing to grow Brookfield Renewable Partners's distribution.

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1. NYSE:BN (Brookfield Corporation)
2. NYSE:DUK (Duke Energy Corporation)
3. TSX:BN (Brookfield)

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