



This Sounds Like the Perfect Deal for Brookfield Asset Management Inc.

Description

According to a report by *Reuters*, state-controlled Brazilian utility **CEMIG** ([NYSE:CIG](#)) is looking to sell its stake in a Brazilian power-generation joint venture. Because that entity owns several renewable assets in the country, it should be a prime target for **Brookfield Asset Management Inc.'s** (TSX:BAM.A)([NYSE:BAM](#)) renewable subsidiary **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)). Here's why this deal makes perfect sense for Brookfield.

A look at what's at stake

Brazil's economy is currently in the midst of a deep recession due to the impact that low commodity prices are having on its resource-focused economy. Making matters worse, the country is going through a difficult political crisis. These factors have held back power demand, which has hurt CEMIG's profitability.

The company's balance sheet is under stress because it took on too much debt during the boom years. Now, CEMIG needs to pay down some debt to relieve the pressure on its balance sheet, which is why it is in the process of unloading non-core investments and minority stakes.

Among the assets, it is looking to sell is its 45% stake Alianca, which owns seven hydropower dams and a wind farm in Brazil. Its partner in the venture, Brazilian iron ore giant **Vale**, wants to maintain its controlling stake. However, given its financial constraints, Vale is an unlikely buyer of CEMIG's stake. That led CEMIG to hire an investment bank to oversee the sales process, which could fetch up to US\$590 million.

Why this would fit into Brookfield

There are several reasons why these assets appear to be a perfect target for Brookfield Renewable Partners. First, the company already has a strong presence in Brazil, operating US\$3 billion of primarily hydro assets. Further, it is building three more small hydro facilities in the country. So, from a strategic standpoint, these assets would add scale in one of the company's core markets.

Second, the company is a value investor at heart and looks for troubling situations to deploy capital.

That is certainly the case in Brazil and a big reason why the company invested US\$600 million in the country last year at the height of its recession. While the worst of Brazil's political crisis is over, and its economy has likely bottomed, it is still a good time to invest in the country on a value basis given the scarcity of capital and low valuations for assets.

Finally, Brookfield's growth strategy is to invest US\$500-600 million per year to acquire assets that require operational expertise and can deliver outsized returns, which are criteria this transaction could meet. For example, not only is the price well within the sweet spot, but given that mining giant Vale is the majority owner, it will likely need to bring on a partner that has operational capabilities to run these assets.

Because Brazil is still closer to the bottom of the cycle, there's plenty of upside potential for these assets as the economy mends. In fact, given that power demand is starting to improve, there's less risk in buying power assets in the country than there was last year.

Investor takeaway

Acquisitions remain an important part of the growth strategy at Brookfield Renewable Partners. However, to deliver growth that matters, the company needs to acquire the right assets, which are those it can buy for value. That would seem to be the case here, with CEMIG looking to unload assets to pay down debt at the bottom of the market cycle, which potentially provides Brookfield the opportunity to make a needle-moving deal.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:BN (Brookfield Corporation)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
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Date

2025/08/02

Date Created

2016/11/24

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