



Should Brookfield Asset Management Inc. Take a Piece of Trans Mountain?

Description

Brookfield Asset Management Inc. (TSX:BAM.A)([NYSE:BAM](#)) held its annual general meeting June 15. Among the topics up for discussion was a possible investment in the Trans Mountain pipeline by the alternative asset manager.

Good idea? Bad idea? Here are my two cents on the subject.

Good idea

One of the major platforms in Brookfield's investment strategy is infrastructure. It's one of the largest owners of infrastructure assets on the planet, so it's only natural that CEO Bruce Flatt would be open to the possibility.

"We look at all infrastructure," CEO Bruce Flatt said in an interview at the company's annual general meeting. "If there's something that makes sense for us, given everything that has gone on, we'll consider it."

Flatt didn't become one of the most successful CEOs in Canada by closing the doors to potential opportunities.

As a company that goes [everywhere](#) to find undervalued infrastructure assets, it's nice to think that it would actually consider something so large right in its own backyard.

Equally important are the optics of an investment in the Trans Mountain pipeline. By making a considerable investment in the existing pipeline system and its expansion, Brookfield is projecting a healthier economic picture for Alberta and the oil and gas industry in the years ahead.

If you're an oil and gas investor, this support would be music to your ears.

Bad idea

From the get-go, I saw the **Kinder Morgan Canada Ltd.** (TSX:TML) IPO as nothing more than an act

of desperation by a pipeline company with too much debt at both the parent and its Canadian subsidiary.

“At the end of March, **Kinder Morgan Inc.** ([NYSE:KMI](#)) had US\$35.1 billion in net debt on its books — 81% of its \$43.2 billion market cap. That’s not an insignificant amount,” I [stated](#) May 25, 2017. “Sure, it reduced its long-term debt in 2016 by more than \$5 billion, but compared to a big integrated oil company like **Exxon Mobil Corporation** ([NYSE:XOM](#)), whose US\$20.2 billion in net debt works out to just 5.8% of its \$349.9 billion market cap, it’s huge.”

Ultimately, I recommended that investors avoid shares of Kinder Morgan Canada. Today, more than a year later, it’s trading a buck below its IPO price.

Kinder Morgan issues aside, I’m not sure Brookfield needs the headache of investing in this very controversial pipeline. Yes, Albertans are big supporters — 82% of the province think it’s a good thing — but the rest of the country isn’t nearly as enthusiastic about the pipeline itself or the government’s purchase of it, albeit on an interim basis, until someone like Brookfield takes it off its hands.

On the one hand, Brookfield might be getting a distressed asset, but given that it’s putting a lot of weight behind renewable energy in China and elsewhere, I’m not sure that squares with where it sees the world heading over the next 10-20 years.

Ultimately, everything for Brookfield is about intrinsic value and how much of deal it can get on what it feels is the true number.

The bottom line

I’m sure whatever Bruce Flatt decides will be the right call. However, if Justin’s waiting for Flatt to write a cheque for \$4.5 billion, he’s going to be waiting a long time.

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