



TransAlta: The Next Brookfield Takeover Target?

Description

Brookfield Asset Management ([TSX:BAM](#)) ([NYSE:BAM](#)) and its subsidiaries are now targeting acquisitions that appear undervalued. Investors now wonder which company could be the next Brookfield takeover target.

Brookfield bids to take its property subsidiary private

In January Brookfield Asset Management [announced plans](#) to buy the outstanding limited partnership units it doesn't already own in **Brookfield Property Partners** ([TSX:BPY.UN](#))(NASDAQ:BPY). The US\$16.50 per unit bid puts the value of the deal near US\$5.9 billion.

The subsidiary owns real estate assets around the globe. Hotels, office towers, and student housing make up a good chunk of the assets. These segments took a beating in the past year, so it makes sense for Brookfield to use some of its war chest of cash to take advantage of the challenging market conditions.

Brookfield Infrastructure takeover bid for Inter Pipeline

Inter Pipeline (TSX:IPL) is another company that fell on hard times in the past year. The share price tumbled from \$22 before the pandemic to below \$6 at the worst of the crash.

Management slashed the dividend and sold its European storage business to preserve cash while they navigate the pandemic. IPL is building a \$4 billion polypropylene plant. The project hit some speed bumps in the past year and IPL is searching for a partner on the development.

Brookfield Infrastructure Partners L.P. ([TSX:BIP.UN](#))([NYSE:BIP](#)) already owns nearly 20% of Inter Pipeline's outstanding stock. The Brookfield takeover bid of \$16.50 per share is a 23% premium to the closing price before the announcement.

Interestingly, reports in 2019 suggested that Inter Pipeline had turned down a \$30 per share offer from

a different bidder. In hindsight, that would have been a good deal for shareholders.

In the current situation, Inter Pipeline is once again pushing back, saying the Brookfield bid is not adequate. At the time of writing the stock trades near \$17.50, so investors appear to think a better offer could be on the way. The [energy sector](#) is on the rebound, so we will see what happens.

Could TransAlta be next on the Brookfield takeover list?

Brookfield Asset Management has quietly built a 12.4% position in **TransAlta** ([TSX:TA](#)) ([NYSE:TAC](#)). The most recent purchase came in January at \$10.56 per share. Brookfield also bought shares during the crash last March, and already had large stake in the power producer.

TransAlta is on the rebound after a string of tough years. Lower power prices, high debt, and opposition to coal-fired energy combined to hit the company. The stock fell from \$35 in 2008 to below \$4 in 2016.

Management did a good job of cleaning up the balance sheet in the past five years. In addition, TransAlta is ahead of schedule on its transition from coal to natural gas. The stock now trades at its highest point since 2015. The board has resumed [dividend](#) increases and TransAlta anticipates solid growth in free cash flow.

Pundits have long believed the stock is undervalued due to TransAlta's majority interest in **TransAlta Renewables** ([TSX:RNW](#)). Whether or not Brookfield intends to launch a takeover bid for all of TransAlta is unknown, but it wouldn't be a surprise given the recent trend of trying to buy companies that it knows well and views as undervalued.

Should you buy TransAlta stock?

TransAlta appears cheap right now when you consider the value of its TransAlta Renewables stake. The company is on the mend and the share prices should drift higher in the next few years.

Any potential takeover premium should be viewed as a bonus.

CATEGORY

1. Investing

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2. NYSE:TAC (TransAlta Corporation)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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