
Prime Down, Spark Next?

I'm not surprised foreign investors are seeing value in Australia's listed infrastructure stocks. On the back of Ontario Teachers' Pension Plan's failed bid for **Transurban**, another Canadian fund, Brookfield Infrastructure Fund, yesterday launched a bid for the 60% of **Prime Infrastructure** that it doesn't already own.

No doubt foreign investors are attracted to Australia's first-world status, healthy economy, sound government balance sheet and reliable legal system. Most of all, the prices currently on offer are, in my opinion, [extremely attractive](#). These assets produce highly predictable, regular cashflow and in the current global economy, that's a rare attribute. They also lend themselves to pension funds and genuine long-term investors looking for a safe, reliable investment and protection against inflation (Australia's own pension funds were piling into this sector at the height of the boom three years ago, but are nowhere to be seen now the asking prices are, in some cases, half what they were. Anyone surprised?).

So which infrastructure assets might the foreigners raid next? My best guess is another stock we own in the Value Fund, **Spark Infrastructure**. I recently saw a Citigroup broker report downgrading Spark because of the large amount of investment needed in its regulated electricity businesses over the next 5 years.

For any investor with cash looking for a home, the ability to invest more capital over the coming years and earn a regulated 11% return on it is a positive, not a negative (this is one of the main reasons Warren Buffett cited for investing in regulated electricity businesses in the US; the ability to employ, over time, substantial amounts of additional capital at attractive returns).

Spark is also a fund already married to a global infrastructure investor, Hong Kong-based Cheung Kong Infrastructure (CKI). That means alternative bidders are unlikely, but Cheung Kong is a logical owner of these assets. It already owns 51% of the same electricity distribution businesses Spark owns. And its recent purchase of UK distribution assets shows it's keen to add to its already large portfolio of global infrastructure assets.

I'm probably wrong about the exact target but I'm confident there will be more action in this sector. The prices are attractive and there is plenty of money around the world looking for a safe, reliable home.