Spark Won't Light While Conflicts Remain

After seven months, a ‘strategic review’ and millions of dollars in fees, **Spark Infrastructure**’s independent directors have come up with the grand plan of … drum roll please … a two for seven rights issue.

You would think that Spark should be able to make some strategic moves without employing an army of investment bankers. After all, the business already pays $8m per annum to Cheung Kong Infrastructure and RREEF to manage the thing, and the independent directors collect a cool $685,000 between them. Surely that buys you some expertise? Not so, it seems.

The capital raised will quench Spark’s thirst for cash over the next five years. And contributing new money, on which we’ll earn a regulated return of something like 10% a year for the foreseeable future, is the best option for investors – far superior to selling assets at a discount to their underlying value. Based on updated distribution guidance, the stock is yielding 8.3%, partly tax advantaged and that distribution should grow at least 10% per annum as new capital is employed over the next five years. The value on offer is compelling – perhaps the best value stock at the blue chip end of the market.

But it’s not going to trade at anything like its underlying value until something is done about the conflict-ridden structure. No amount of corporate-governance box ticking or independent director appointments will change the fact that CKI and RREEF control Spark and its underlying assets *and* own the management company. If a seven month strategic review can’t change that, it’s hard to see what will.