



Private Equity Hot for Infrastructure

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A record number of private equity funds have set their sights on infrastructure assets, and are searching markets around the world for buyout targets and new sources of capital. Yesterday, a U.S.-based buyout group bid \$7.8-billion for Calgary-based power generator TransAlta Corp. If it is completed, the deal would be the latest in a soaring number of takeovers during the past three years of assets such as roads, airports and utilities.

In 2005, there were four infrastructure-focused private equity firms in the market looking to raise \$1.8-billion (U.S.), according to British-based Private Equity Intelligence. This year, a record 71 such funds are being marketed to investors around the globe, and they are seeking \$90.8-billion in new capital, according to a report released yesterday by the industry research group.

The vast majority of these funds invest in a variety of different types of infrastructure, with 79 per cent involved in energy and 42 per cent in utilities, the report said.

Energy infrastructure companies and power utilities have become highly valued acquisitions for their stability, long-term cash flow, and lack of correlation to other investments including equities and bonds, said Gregory Smith, managing director at Macquarie Capital Funds Canada Ltd.

"When you look at the volatility we're experiencing today, this has become a very attractive asset class," Mr. Smith said.

The industry is expected to experience strong growth. Approximately \$150-billion (Canadian) must be invested over the next two decades to meet Canada's growing demand for electricity, according to the Canadian Electricity Association.

In addition to increased demand, aging systems mean 20 per cent of existing power generation facilities in Canada will need to be replaced by 2020, and conditions are similar in many other countries, Mr. Smith said.

A handful of firms, including Macquarie Canada's Australian parent firm, Macquarie Group Ltd., got into the market for infrastructure in the 1990s.

There was a big surge of interest from buyout firms between 2005 and 2006, and it continues to grow, according to Private Equity Intelligence.

If its bid is successful, the acquisition of TransAlta by LS Power Equity Partners would be the third-largest privatization of a utility company since this time last year.

The two largest deals in the sector to close since July of last year were the \$32-billion (U.S.) leveraged buyout of Dallas-based Energy Future Holdings Corp. (formerly TXU Corp.), and the \$10-billion acquisition of British-based water utility Kelda Group PLC.

A number of Canadian firms have also been leading investors in utilities assets, including large pension funds and Brookfield Asset Management Inc.

In October, 2007, a group including three Canadian pension fund managers, the Canada Pension Plan Investment Board, the British Columbia Investment Management Corp. and Alberta Investment Management, bought the largest electric utility in Washington State, Puget Energy, for \$3.5-billion (U.S.).