Brookfield Infrastructure Partners LP (BIP Q3 2024 Results)
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Corporate Speakers:

- David Krant; Brookfield Infrastructure Partners; Chief Financial Officer
- Sam Pollock; Brookfield Infrastructure Partners; Chief Executive Officer
- David Joynt; Brookfield Infrastructure Partners; Managing Partner and Head of Transport Investing

Participants:

- Cherilyn Radbourne; TD Cowen; Analyst
- Maurice Choy; RBC Capital Markets; Analyst
- Devin Dodge; BMO Capital Markets; Analyst
- Robert Catellier; CIBC Capital Markets; Analyst
- Robert Hope; Scotiabank; Analyst

PRESENTATION

Operator: Good day. Welcome to the Brookfield Infrastructure Partners Q3 2024 Results Conference Call and Webcast. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker, Mr. David Krant, Chief Financial Officer.

David Krant: Thank you, Sheri. And good morning, everyone. Welcome to Brookfield Infrastructure Partners third quarter 2024 earnings conference call.

As introduced, my name is David Krant and I'm the Chief Financial Officer of Brookfield Infrastructure. I'm joined today by our Chief Executive Officer, Sam Pollock. And also, with us today is Dave Joynt, a Managing Partner and Head of Transport Investing across our business, for the Q&A portion of the call.

I'll begin the call today with a summary of our third quarter 2024 results, followed by a discussion of our capital markets activity and strong financial position. I'll then turn the call over to Sam, who will provide an update on our strategic initiatives before concluding with an outlook for the business.

At this time, I would like to remind you that in our remarks today, we may make forward-looking statements. These statements are subject to known and unknown risks, and future results may differ materially. For further information on known risk factors, I would encourage you to review our latest annual report on Form 20-F, which is available on our website.

Brookfield Infrastructure is pleased to report strong financial and operating results while advancing many of our strategic initiatives this quarter. Our focus was on advancing our record capital backlog, delivering on our capital recycling objectives, which Sam will speak to next, and executing our capital market strategy. Beginning with our financial and operating results. We generated funds from operations, or FFO, of $599 million during the third quarter, which is 7% above the comparable period. We experienced strong contributions from new investments completed last year and the initial contribution from three accretive tuck-in acquisitions that closed this year.

We also benefited from organic growth at the midpoint of our target range, capturing annual rate increases from inflation, stronger transportation volumes and the commissioning of over $1 billion from our capital backlog. Results were partially offset by the impact of higher borrowing costs and foreign exchange. Most notably, the depreciation of the Brazilian Real this period.

Taking a closer look at our results by segment. Our utilities segment generated FFO of $188 million, an increase of 9% on a comparable basis. In total, the amount was higher last year as we sold our interest in Australian regulated utility business and completed a recapitalization at our Brazilian regulated transmission business in the first quarter. Organic growth for the segment was driven by the continued benefit of inflation indexation and the commissioning of approximately $450 million of capital into our rate base over the last 12 months.

Moving to our transport segment, FFO was $308 million, representing a 50% increase over the same period in the prior year. The increase is primarily attributable to the acquisition of our global intermodal logistics operation that closed last year, and an incremental 10% stake in our Brazilian integrated rail and port logistics operation that was completed earlier this year. The remaining businesses performed well. The strong volumes across our networks and average rate increases of 7% across our rail networks and 5% across our toll road portfolio.

Our midstream segment generated FFO of $147 million compared to $163 million in the same period last year. The decline is primarily attributable to capital recycling activities completed last year at our U.S. gas pipeline and higher interest costs across the portfolio from new financing initiatives. The underlying businesses are performing well in the current environment, following continued demand for long-term services across our critical midstream assets, particularly at our North American gas storage business.

Lastly, FFO from our data segment was $85 million, representing a 29% increase over the same period last year. This increase is attributable to strong underlying performance and several new investments completed over the last 12 months. The most impactful this quarter was the tuck-in acquisition of a portfolio of retail colocation data centers completed earlier this year. Our global data center platform continues to execute its development plan to drive growth, with an additional 70 megawatts commissioned during the quarter, bringing our total installed capacity to over 900 megawatts. In July, our European hyperscale data center platform successfully commissioned 10 megawatts in Milan and is progressing on the build-out of an additional 80 megawatts of capacity to be delivered next year across a number of key European markets. In the U.S., we commissioned 50 megawatts of capacity on scope, schedule and budget and leasing activity remains very strong.

Stepping back and looking at our operations as a whole, we are excited about the $8 billion backlog of organic growth projects embedded within our business. Our existing platform spans many of the sectors directly benefiting from the tailwinds created by artificial intelligence and associated power demand including our natural gas and midstream infrastructure to our data center, fiber and telecom platforms. We have seen this translate into a 20% increase in our backlog in the last 12 months, while providing very attractive project level returns at or above our target range. We additionally have a shadow backlog of over $4 billion in incremental organic growth opportunities that represent projects we are advancing but have not yet reached final investment decision.

Now before turning it over to Sam, I would like to spend a few minutes providing an update on some of our recent capital markets activity.

We completed $3 billion of non-recourse financings during the quarter, with the goal of efficiently financing our business, extending maturities and reducing our cost of capital.

To highlight a few examples, first, at our North American hyperscale data center platform, we continue to access capital markets as the first AAA-rated data center ABS issuer, raising $370 million in the quarter. The business has raised $1.1 billion of total proceeds this year that enable us to continue to build out our backlog of hyperscale data centers at attractive pricing.

At our U.S. retail colocation data center business, we completed an inaugural $900 million ABS issuance in early October with proceeds used to partially repay our acquisition financing. The financing helps term out nearly half of our acquisition bridge for six years and reduces the company's annual interest expense by approximately $20 million.

The last example I will highlight is at our Western Canadian natural gas gathering and processing operation, where we successfully completed a repricing of an $800 million term loan that reduced credit spreads by 25 basis points. This transaction was a second repricing this year, which allowed us to reduce the cost of the loan by a total of 75 basis points, resulting in $6 million of annual interest savings for the company.

We continue to maintain a conservatively capitalized balance sheet with no corporate maturities until 2027 and only 1% of our asset level debt maturing over the next 12 months.

We ended the quarter with $4.6 billion of total liquidity, which includes $1.6 billion at the corporate level and over $1.4 billion of cash across our businesses, which positions us well to pursue both our organic and inorganic growth opportunities.

That concludes my remarks for this morning. I will now turn the call over to Sam.

Sam Pollock: Thank you, David. And good morning, everyone. For my remarks today, I'll provide an update on our transaction activity and conclude with a business outlook.

Now, beginning with new investments, pleased to report that we closed the acquisition of 76,000 Indian telecom tower sites in mid-September. We are now the largest telecom tower operator in India and the second largest globally with over 250,000 tower sites. This acquisition increases our tenancies from the country's second and third largest mobile network operators while offering significant operating synergies. The scale and benefits of the combined platform were all achieved at a value-based entry point of below 6x EBITDA.

Our total equity commitment was approximately $140 million, and we expect the business to generate a strong going in FFO yield. Concurrent with the acquisition, we completed the rebranding of the business to a name called Altius, which brings together three acquisitions we've made in the Indian telecommunications space.

Now during the quarter, we secured approximately $600 million of capital recycling proceeds for a total of approximately $2 billion for the year. As a result, we've successfully achieved our capital recycling target.

Most recently, we agreed on terms to sell our Mexican regulated natural gas transmission business for net proceeds of approximately $125 million for BIP, crystallizing an IRR of around 22% and a multiple capital of about 2.2x. The sale is expected to close in the first quarter of 2025.

We also completed the recapitalization of our North American gas storage platform, raising $1.25 billion that enabled a $305 million distribution net to BIP in advance of a sales process. This financing alone returned more capital than we had initially invested and increased the investments realized multiple capital to approximately 2.5x. This is an extremely attractive result given we still own a business that generates approximately $330 million in annual EBITDA.

In terms of our business outlook, the economic backdrop for infrastructure investing has improved significantly, broadly speaking, with short-term interest rates moving lower, inflationary pressures easing and liquidity steadily returning to institutional investors. These developments bode well for our business strategy, and we are confident they will create an even more favorable landscape for both asset sales and new investments.

Now starting first on asset sales. We are seeing elevated demand for high-quality infrastructure assets. In the next two years, we expect to generate $5 billion to $6 billion of proceeds from capital recycling initiatives, to crystallize the value we've created within our mature and derisked companies. These asset sales are expected to generate returns well above our targets.

From a deployment perspective, the outlook for our business is strong. Our growth profile continues to accelerate, focused around the decarbonization and digitalization investment themes. We're also seeing more opportunities for value creation within our existing business and our new investment pipeline, which is as big as it's been in two years, and it continues to grow. With our unparalleled access to scale capital, we expect to put significant capital to work as we seek to expand our partner of choice reputation.

Now this year has been notable for the number of elections including a very significant one yesterday in the United States. While election outcomes can result in policy changes, we believe that we are largely insulated from volatility due to the quality of the countries we invest in and our focus in areas of the economy that garner broad political support.

We often characterize BIP as the investment for all seasons and cycles, because independent of these election outcomes or economic cycles or the direction of interest rates, Brookfield Infrastructure provides investors an attractive mix of downside protection and upside growth potential that outpaces many of our pure-play sector peers. We believe this is more relevant today than it's ever been.

Our business is resilient due to the high degree of long-term contracted and regulated cash flow with significant protection from inflation. The business is also more diversified than at any point during our history. This combination gives us the confidence to believe that our portfolio can meaningly increase cash flows in the years ahead. That now concludes my remarks, so I'll pass it over to Sheri to open the line for questions.

QUESTIONS AND ANSWERS

Operator: Our first question will come from the line of Cherilyn Radbourne with TD Cowen.

Cherilyn Radbourne: Thanks very much and good morning. First question is on data and AI broadly. On the BAM call earlier this week, there was some discussion about using the unique nuclear capability within the Brookfield ecosystem to advance the collective opportunity to support AI. Now I assume that SMRs are not contemplated in your current backlog, but I'm curious whether that's becoming a feature of your discussions with the large hyperscalers?

Sam Pollock: Hi, Cherilyn. Thanks for your question. Yes, maybe to put a fine point to it, I think everyone recognizes that SMRs and nuclear energy are going to play an important role in the long term. But I think in the short term, it's not really part of any solutions that we're talking about.

At the moment, the focus is still largely on renewable options as well as, I'd say the natural gas potential in various parts of the U.S. and Canada, in particular.

Cherilyn Radbourne: Okay. That makes sense. Then switching to the residential decarbonization business, it looks like you made some nice strides in the U.K. and Europe during the quarter.

I'm curious if there are good synergies available to managing the North American and European businesses together or the residential markets in each geography, different phases with respect to decarbonization such that it would make sense to think of the two geographies of separate businesses, each with attractive attributes in their own rights.

Sam Pollock: Okay. Well, I'll take that question and then one or two Daves might want to jump in if they have anything to add. For the most part, our philosophy is that we're believers in decentralization. And as a result, we tend to allow each region to operate on its own and make decisions that make sense for its particular market.

In Europe, our businesses largely run autonomously whether it's in France, the U.K. or Germany or Spain for that matter, we have operations in each of those countries. In North America, the Canadian business runs separately from the U.S. business. What we do, though, is we have a lot of communication between the various groups, where we look for best practices, we try to share technology. Obviously, things that work well in one market, we try to export those ideas and systems to another market.

Brookfield tends to be the glue to ensure that best practices are moved across each of the regions, but we have accountability at the local level with CEOs in each of the countries.

Maurice Choy: Thank you and good morning, everyone. Maybe if I could start with a comment you made earlier about the number of elections this year and how election outcomes can result in policy changes.

So, we, obviously, have quite a number of these elections done including yesterday. Thoughts on what outcomes and potential policy shifts across all the countries you look at, not just the U.S., that may act as a tailwind or headwind for your assets?

Sam Pollock: Well, we operate in a lot of countries, so, I maybe won’t go into each one and instead just touch on the U.K. and the U.S., where there's been changes. So, in some of the other countries like India, there hasn't really been a change. We can touch on Brazil, I guess as well.

But maybe just more broadly speaking, I think the trends that are driving our business, as we talked about, are primarily decarbonization and digitalization. As it relates to digitalization, I don't think there's any difference in views or eagerness to deploy capital across those elements of the economy in any new government.

I'd say this is a focus for the Republicans as well as it was for the Democrats. It's a focus for labor as it was for the conservatives in the U.K., and it's a big focus down in Brazil as well. So obviously that trend doesn't change. There's probably a bit more nuances as it relates to decarbonization.

I'd probably leave it to our renewables colleagues to touch on it in greater detail, but what they would tell you is that even though the tone may not be quite as strong across various parties, the reality on the ground is that most of the decisions are being made at the corporate level or at the state level. Those things won't change with new governments.

So, in general, I guess what you should take from that is we don't see any meaningful change in the direction of those macro trends, which we think are strong as ever in each of those countries. I think the only thing that you might see now is, in some countries, like the U.K., I think they will have a big focus on growth and will take steps to try to get the economy moving again.

In the U.S., I guess we'll have to wait and see some of the decisions that we made. Given that the economy is running pretty strong right now there's probably not going to be as much of a stimulus impact in the near term.

Maurice Choy: Thanks for the color, and maybe very much related to that in terms of asking where you see the best adjusted returns when you approach acquisitions? Obviously, recognizing that in the current environment, there can be both a buyers' market and sellers market depending on where you're shopping.

Sam Pollock: Look, I think the place where we see the most capital being deployed, and our business, as I've probably said many times on this call and at investor meetings very much follows the flow of capital.

The greatest investment going on outside of China, which we don't really invest in right now is in the U.S. We see huge amounts of dollars going to all parts of the economy, and that's creating great opportunities for us.

So, I would have to say today the U.S. is still probably the most interesting place for us. I'd say second to that, just to pick another place, we often talk about Korea as being a very interesting market, and we see some very interesting opportunities there. Again, for a lot of the same dynamics, there seems to be a very large capital investment trend going on in the country.

I think where there's a need for capital, that's usually an opportunity for it to get incentivized returns.

Devin Dodge: Thanks, and good morning. I wanted to start with the India telecom tower business. With the American Tower deal completed, just wondering if there are complexities with holding a mix of leased and owned sites. Is there an impact to the exit strategies available?

Dave Joynt: Devin, thanks for the question. This is Dave Joynt. I'm filling in for Ben this week. Look, I think there's no inherent complexity to having owned sites and lease sites into a single portfolio.

I think the nice thing about the tuck-in here is it now gives us even greater development capability that we can build up and continue to add a lot of terminal value to the business over time. But look, as the leases come up on the existing portfolio, we'll be working to extend those on terms that make sense.

To Sam's comments about putting them into a single vehicle with rebranding, we think has a lot of benefits as well.

Devin Dodge: Okay, makes sense. I'm just wondering if you could provide a bit more color on the potential synergies, like where they're going to be coming from and how meaningful they could be.

Dave Joynt: Yes. I think what I would say is the logical area of synergy, which I sort of already alluded to, is having the development platform kind of within the business itself.

Obviously, with scale from an SG&A perspective, I think that makes a big difference. I would say our thesis of the transaction was not premised on the realization of hard-to-get synergies. It was a value opportunity, so we feel like we've acquired these at an extremely deep value, and that's where really the value creation is coming from.

Sam Pollock: And there will be some O&M opportunities by combining the two businesses. So today, we outsource some of our O&M to Reliance, and then having this business, there'll be some overlap where we can where sites are near each other, be able to leverage whatever business has the cheaper opportunity to manage those sites.

Devin Dodge: Okay, makes sense. Then just maybe switching over to IPL. It appears HPC has been performing better in recent months. I think the Q3 was the best performance to date that we've seen there. As you look ahead, and this business continues to demonstrate stability, is BIP the best owner of this asset over the medium to long term? Or do you expect to monetize some or all of it to a more strategic buyer?

Dave Joynt: I guess the first thing I'd comment is we know that commissioning these assets takes a little bit of time. So, as you note, I think we've made great progress. But the focus for us at the moment is on continuing to sort of stabilize it and get it running at the levels that we want to, up to the capacity of the plants themselves. The position of the asset itself has never been a question.

It's in a great location with great access to low-cost feedstock. But right now, we're focused on kind of managing the asset as opposed to thinking about something on a long-term basis.

Look, as you note, obviously there would be a lot of institutional logic for a strategic to own some or all of the assets at some point in time.

Robert Catellier: I'd like to go back to the nuclear topic here because I think it's timely. Can you clarify your interest in investing in nuclear assets, please? And is it even possible in BIP or are these opportunities limited to other funds and listed entities?

Sam Pollock: Hi Robert, while I can't predict exactly the nature of what that investment would look like, more likely than not, it would be done through our transition fund and then and also through BEP. So, it is unlikely that it would be a BIP investment.

Robert Catellier: Right. Then just on the macro picture. As you alluded to in your letter to unitholders, the market environment right now is increasing deal flow, but at the same time, your corporate liquidity is somewhat low at $1.6 billion. We can argue that it's not entirely unusual for BIP. But what's your perspective on how these two dynamics influence distribution growth because they seem to point to there being some incentive to retain capital for new investments.

David Krant: I can start, Sam, and feel free to layer in. So I'll tackle that question in two ways. I think first, Rob, on the distribution growth outlook, look, that's something we revisit annually with our Board in the fourth quarter. So, I won't comment on any levels that we're expecting. But, we appreciate the value of increasing our distributions between the 5% to 9% target range. I think that's extremely valuable.

Our business has performed well this year. The business is doing excellent. So, I won't comment specifically on where we're thinking for the year and the desire to retain cash.

I think our liquidity today is strong at $1.6 billion, and as I alluded to, we have a $1.4 billion in cash across our businesses to fund a lot of that organic growth pipeline that we've been alluding to. So, we feel like we're in a good position.

The other thing that we'll have coming in over the next six to 12 months will be proceeds from asset sales. We have secured two sales between our Mexican transmission business and our fiber operations in France that will generate $225 million of net proceeds to BIP that we expect to receive in the next month or two. We have $5 billion to $6 billion of proceeds that we expect to generate over the next 12 to 24 months through asset sales. So I think that's the real ability for us to replenish the liquidity and get it back so we can continue to deploy it into highly accretive opportunities.

Sam Pollock: Yes, and maybe I'll just put a fine point is, look, we have lots of liquidity, but our dividend and dividend growth is sacrosanct to our business strategy, and we're not going to take away the cash that we put towards our dividends to stretch ourselves on new investments. So, I think you should take that as our dividend is very important.

Robert Hope: Good morning everyone. Quasi election related, I just want to get a sense of your thinking around the prospect for a stronger U.S. dollar for an extended period of time. Could we see you focus on opportunities where we've seen the real strengthening of the U.S. dollar. For instance, Brazil has been quite weak recently. So, I just want to get a sense of could that potentially add to investment opportunities outside of the continental U.S.

Sam Pollock: Well maybe I'd say it in two different ways.

I think first, we make investments, we don't really take a view on currencies because those are almost impossible to predict. So, whenever we make investments including any new investments we do in Brazil, we hedge our investments and that don't take that risk.

So that's not really a consideration as far as going into countries that maybe the currency is weaker at the moment because that's not part of the thesis. But having said that, obviously a currency strength because money is moving into those countries and potentially, out of other countries.

And so, to the extent that capital is scarce in places like Brazil, and that creates an opportunity for us to earn attractive risk-adjusted returns, then absolutely, we'll grow those countries if we think we can achieve those outsized returns.

Robert Hope: Thanks for that. Then maybe just turning over to kind of the growth profile of the business. Good to see 7% organic growth once again there. As we take a look into 2025, the capital backlog will continue to add to growth. But I want to get a sense of how much inflation that we saw on elevated levels now coming down is still yet to roll through the numbers?

David Krant: I can take that, Rob. From an inflation perspective, a lot of our businesses are pricing with very limited lag. So, you've seen us capture, 3% to 4% inflation across many of our businesses in the last 12 months. That still is elevated to your point and certainly better than what we were getting historically. The only business that has a true regulated lag on their inflation pass-through is the U.K. and our regulated utility there.

So, you'll still see elevated levels come through there, even though headline CPI or RPI in the country has normalized or certainly come back down. So that would be the only subsegment where I'd expect to see that trailing. But I'd say inflation still is trending 50 to 75 basis points ahead of where we would have historically seen in many of the markets we operate. So, it still should be a tailwind to results as we look ahead.

Operator: I'm showing no further questions in the queue at this time. I would now like to turn the call back over to Mr. Sam Pollock for any closing remarks.

Sam Pollock: Thank you, Operator and thank you to everyone who joined the call this morning. We know that there were probably lots of competing calls with election results coming in.

But we'd just like to thank everyone for joining, and we wish you a very happy upcoming holiday season and look forward to providing you with our fourth quarter and year-end results early in the new year.

All the best. Thank you.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.