Brookfield Infrastructure Partners L.P.

2014 First Quarter Conference Call Transcript

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Speakers:

Sam Pollock
Chief Executive Officer

Bahir Manios
Chief Financial Officer

TRACEY WISE:

Thank you, operator and good morning. Thank you all for joining us for Brookfield Infrastructure Partners' first quarter 2014 earnings conference call. On the call today is Bahir Manios, our Chief Financial Officer, who will discuss our financial results and review our operational highlights, and Chief Executive Officer, Sam Pollock, who will provide comments on our acquisitions, our view of emerging markets and provide an outlook for our business.

Following their remarks we look forward to taking your questions and comments.

At this time, I would like to remind you that in responding to questions and in talking about our growth initiatives, and our financial and operating performance, 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 annual report on form 20-F which is available on our website.

With that, I would like to turn the call over to Bahir Manios. Bahir?

BAHIR MANIOS:

Thanks Tracey and good morning everyone.

In my remarks I will focus on Funds from Operations or FFO, which is a proxy for cash that we generate in our business

We are very pleased with the fact that we started the year off with strong first quarter financial results. We reported FFO of $186 million or $0.89 per unit, which were up 16% and 11%, respectively, compared to the prior year. Our results reflect steady improvements in each one of our operating segments, and the deployment of capital in organic growth initiatives and new businesses. During the quarter we increased our distributions to unitholders by 12% and based on our results to date, we are on track to achieve a payout ratio of 60%, which is at the lower end of our long-term payout target.

Our utilities business generated FFO of $89 million in the period, compared to $92 million in the first quarter of 2013. The lower results in this segment reflect the impact of the sale of our Australasian distribution operations in the fourth quarter of 2013. On a 'same store' basis, underlying performance was strong, as FFO increased by $6 million or 7% as our businesses benefited from inflation indexation and the commissioning of certain capital projects into our regulated rate base.

Our transport business generated FFO of $95 million in the first quarter of 2014, compared to $67 million in the prior year period. The significant increase in FFO was driven by the full contribution from our Australian railroad's expansion program where the final portion was commissioned in March 2013. In addition, higher volumes associated with a bumper grain harvest and a higher contribution from our toll road business, where we doubled our ownership interest in the Brazilian roads in September 2013, also contributed to these positive results.

Our energy business generated FFO of $26 million in the first quarter of 2014, compared to $22 million in the prior year period. Results in this segment were aided by improved performance at our North American natural gas transmission business. During the quarter, this business experienced increased natural gas volumes into the Chicago market and higher revenues from profit sharing agreements with customers that were tied to improvements in basis spreads. Higher spreads were primarily driven by natural gas price volatility caused by an unusually long and cold winter. Our UK energy distribution operations also recorded higher FFO compared to the prior year as a result of higher tariffs as well as lower costs associated with a margin improvement program that we have been implementing over the past year.

On the financing front, we completed two very successful financings in the U.S. private placement market during the quarter.

First, our UK regulated distribution business completed a $165 million financing comprised of notes that received a Baa2 rating from Moody's. This financing is expected to close in June and will have a 15-year maturity at a weighted average swapped coupon of 4.5%. The proceeds will be used to repay existing revolving bank facilities which have been drawn to fund recent growth related capital expenditures.

Also our Australian railroad completed a $485 million long-term financing whose proceeds will be used to repay shorter duration bank debt. This financing, which is expected to close in the third quarter of the year, has been swapped into Australian dollars at an average rate of 6%, and has a weighted average maturity of almost 10 years. The notes have been rated BBB (stable) by Standard and Poor's and will extend the asset's average maturity profile.

We also remain committed in positioning our company for further growth by advancing a number of investment initiatives, putting to work the significant liquidity we have in place today. During the quarter we made some good progress on both the organic growth and acquisitions fronts. I will provide a quick update on some of the organic growth initiatives that we have on the go and Sam will speak to new investments in his remarks.

In our utilities business, we have added $90 million of new growth projects to our capital projects backlog and we are working on several other initiatives that should further expand it. One example of a project that we received approval for was at our Australian coal terminal where we committed to a $20 million capital project to augment the facility's ability to manage storm water run-off during periods of heavy tropical rainfall. This capital investment, representing the first phase of the overall project, is expected to be commissioned into the terminal's rate base by the middle of 2015. We will also shortly commence further detailed engineering studies on the second phase of this project, which could require a further $50 million by 2016.

Our Chilean Transmission system also added $90 million to its capital backlog as a result of seven upgrade projects it was awarded as part of its 2014 trunk transmission line expansion plan. This system also grew its existing rate base by a further $90 million as a result of an acquisition of a 133 kilometer line that is adjacent to its existing system.

In our transport business, we have many projects that are on the go, with the most significant being the Serra de Cafezal expansion project which consists of duplicating 30 kilometers of the Regis Bittencourt highway in the state of São Paulo to ease congestion. We commenced work on this expansion during the quarter and we expect that it will cost approximately $485 million of which our share is ~$150 million, which will be funded from cash retained in the business and project level debt. We expect to be compensated for our investment through an increase in future toll rates and we are targeting equity returns at the high end of our long-term target threshold of 12-15%.

In our energy business, across our various district heating and cooling systems, we made significant headway advancing a number of organic growth projects. We are making good progress connecting the Louisiana State University campus to our system in New Orleans. Also, during the quarter, we reached an agreement to connect another major building to our system in Toronto, and expect to complete a further five connections in Toronto by the end of the third quarter.

With that, I will turn the call over to Sam.

SAM POLLOCK

Thank you Bahir and good morning everyone.

At the outset of the year, our goal was to invest approximately $500 million to $1 billion of capital into our various operations. We are in an excellent position to achieve this goal as to date we have originated five new investments in the transport and energy sectors that total approximately $600 million. We will be investing alongside institutional partners, drawing on our $1.8 billion of corporate liquidity to acquire a 40% interest in each of these investments. We refer to each of these acquisitions in our Letter to Unitholders, but I wanted to mention two of them that we haven't talked about before.

In February, agreements were signed to acquire a 50% equity stake in APMT's Elizabeth container terminal located in the port of New York / New Jersey. This transaction represents a compelling opportunity for us to enter the second busiest port market in North America by investing in a high quality, long life asset with upside from economic growth in the U.S. We expect this transaction to close in the second quarter of 2014, subject to obtaining all required consents and regulatory approvals.

In April, definitive agreements were signed to acquire 100% of Macquarie District Energy and Seattle Steam. Macquarie District Energy owns district cooling systems in Chicago and Las Vegas, with the system in Chicago considered one of the highest quality facilities in the U.S. Seattle Steam provides heat to over 160 buildings in Seattle through 18 miles of distribution pipelines and operates two independent steam plants. These acquisitions are expected to close by the third quarter of 2014, subject to obtaining all required consents and regulatory approvals. These systems complement our existing operations which include systems in Toronto, Houston and New Orleans and are a continuation of our overall strategy of acquiring systems in urban locations where we believe we can utilize our overall platform to enhance the operations.

I'm not going to discuss our VLI acquisition in Brazil today, since I covered it on our last call, I do want to provide our perspective on investing in emerging markets, since these markets have become topical over the last little while.

In all of the markets where we operate, we seek to acquire high quality assets that we assume we will own for the long term, and ideally, which we will buy at less than replacement cost. An indication of an appropriate time to invest is when capital becomes scarce. In order to make this strategy work, having the flexibility to invest in a number of sectors and regions is key as capital flows tend to be very fluid.

We have historically invested in emerging markets such as Chile and Brazil because Brookfield has a long history in those markets and we generally like the benefits of diversification that comes from investing in stable, developed markets as well as higher growth, emerging markets. More often these days than in the past number of years, we hear the viewpoint that exposure to emerging markets is a negative. For us, that suggests that the time is right to invest. But aside from current favourable investment conditions, we also focus on investing in emerging markets because it provides us with certain unique dynamics that are rarely available if we were solely focused on investing in developed countries.

To start, we are always looking for investments of scale, however they are not always available in developed markets in all our targeted sectors. For instance, there are no toll road platforms of scale in the United States, Canada or the UK like we have in South America. In 2012, we were able to acquire an interest in a world class business that owns nine key road arteries in Brazil comprising approximately 3,200 km of motorways. The ability to invest in the motorways sector in North America and the UK is limited because the regulatory framework and political will is not yet in place to introduce the private sector into the road infrastructure sector to the same degree as it is in South America.

We're also focused on organic growth. Investing in markets with high growth and expanding infrastructure needs provide tremendous follow on capital investment opportunities. As we have described on many prior occasions, a big value driver for our business is organic growth because it provides predictable, high return sources of capital investment. Much of our organic growth comes from businesses such as Transelec which transmits electricity in Chile. Transelec benefits from the rapidly growing Chilean economy which has grown at an average rate of approximately 5% per annum over the past 10 years. As most of the low cost sources of energy are some distance from load centres, this expanding network provides an ability for us to deploy capital into new transmission lines year after year.

We always try to invest on a contrarian basis. Emerging markets are, by their nature, more volatile so it enables us to invest on a contrarian basis when geopolitical events occur, as investors often paint all emerging markets with the same brush. Capital from the large money centres in North America and Europe often take "risk on, risk off" decisions that do not distinguish one emerging market from another. As a result, these windows of opportunity to invest on a contrarian basis tend to occur more frequently with emerging markets than they do in more established markets. As we are long-term investors we are not concerned about periods of short-term volatility and generally see them as excellent entry points to invest.

However, investing in emerging markets is not simple and requires the extensive experience and platform that Brookfield has built. We only focus on those countries and states that based on our experience and research we believe have sufficiently reliable judiciaries and sound economic and regulatory policies. We don't always agree with every decision that governments in these countries make, but the same can be said of governments in developed nations. We also only focus on those sectors that we believe exhibit good barriers to entry and attractive investment attributes. Another key component to our investment philosophy is that we only invest significant capital if we have people on the ground. We recognize that we are in many cases investing in local businesses, which require the operating skills of executives with good local knowledge and relationships.

Our interest in emerging markets should not be mistaken for a dislike of investing in developed markets such as the U.S., Canada, Australia or the UK because that is not the case at all. We remain very active in these markets. Nonetheless, the line separating developed markets from emerging ones can be very faint. For instance, one country that we have described as an emerging market, Chile, is in fact an OECD country with an AA- rating; the same as Japan and higher than many countries in Western Europe. We would argue that the risk of investing in Chile is in fact much lower than many western European countries today. While we are seeking to grow our presence in certain emerging markets, currently less than 15% of our cash flow derives from non-OECD countries. In summary, our view is that the benefits of our exposure to emerging markets outweigh their challenges and our ability to invest in them is a unique strength that should help us outperform over the long run.

I am going to conclude my remarks with an outlook for our business.

The business environment for Brookfield Infrastructure remains very favourable and should support continued solid results for our operations for the balance of the year. Earlier in the year there was some volatility in the global currency and commodity markets which was caused by uncertainty over the strength of the U.S. and Chinese economies. In spite of this, we experienced minimal impact on our businesses as we are fortunate to own and operate a business today that is well diversified and through our contractual and regulatory frameworks generally insulated from these types of economic headwinds. Notwithstanding the resilience of our assets, we have also proactively set out over the past two years to reduce the financial risk in our business associated with foreign exchange and interest rates. From a currency perspective, we have hedged almost 80% of our non-U.S. dollar denominated FFO for the next two years, and from an interest rate perspective, we have continued to extend the duration of our debt and we have locked in almost 90% of our total debt into fixed rates.

For the balance of the year, our primary focus is to execute our capital deployment strategy. We will endeavour to close the five transactions we have committed to and integrate these businesses into our operating platforms. These acquisitions will expand the scale of our transport and energy platforms and will meaningfully add to our cash flows in the second half of 2014 and beyond. We will also continue to operate our businesses efficiently and execute our organic growth plans. Finally, our business development teams are working diligently to convert our strong pipeline of opportunities into investments that will provide further profitable growth for our platforms.

With that, I would like to turn the call back to the operator to open the line for questions.

OPERATOR:

The first question is from Bert Powell of BMO Capital Markets. Please go ahead.

BERT POWELL:

Thanks. Sam, just related to the energy business, obviously, a good quarter on weather; can you just give us a sense as to how much of the circumstances that conspired to drive that performance in the quarter have abated, and maybe just kind of just generally give us an update on what you're thinking about that, or how you're thinking about that asset today?

SAM POLLOCK:

Okay. Thanks, Bert. I guess, let me start with the fact that extreme cold weather that we had this past year in North America obviously was a big driver for the performance in the quarter. As you know, the business generates significant cash flow when there is volatility in natural gas prices, as this impacts bases spreads and, given the nature of the business, that's typically how we earn our revenues.

Looking forward, it's obviously hard to predict the balance of the year, but I would say over the next 12 months, and maybe I'll look at it from that perspective, we think that the way the market has evolved with the significant and, in fact, record withdrawals that we had over the winter, that hit an all-time peak of about 3 TCF. It will take either a very cool summer or significantly higher prices for there to be the levels of injections to get back up to normal storage levels for next winter. So, as a result, we think that there's every potential that you could see significantly higher natural gas prices next winter if, as we expect, you don't get those record injection levels. As a result, you're going to see a lot more volatility and, in fact, we could see a lot of volatility this summer, and this is all positive for the business. So, while I wouldn't want to speculate that there'll be a massive turnaround in this business overnight, I do think that it does feel like the sector has troughed and that we should be seeing better results going forward.

I know Bahir wants to talk about seasonality, though.

BAHIR MANIOS:

Yes, Bert, just to add to Sam's comments. Also, typically, Q1 and Q4 are the strongest quarters for this business, so there is a bit of a swing in the results that you'll notice in Q2 and Q3, just sheerly from a seasonality perspective.

BERT POWELL:

Okay, thanks Bahir. Thanks, Sam. Just in terms of the business development – I just want to make sure I'm understanding this correctly – so, you've got $600 million to go for five new investments, two have closed on the terminals you have, another terminal and the two district energies. Is that how to think about the $600 million?

SAM POLLOCK:

No, we've had one that closed. It happened—it was two facilities, but it was one acquisition.

BERT POWELL:

Right, yes, okay. That's MOL.

SAM POLLOCK:

That was MOL, that's correct, that's TraPac. There's four more to go, there's four still to close, if that's the question.

BERT POWELL:

Okay, there's four, so the $600 million is for the additional four.

SAM POLLOCK:

No, no, the $600 million is for all five …

BERT POWELL:

All five, okay.

SAM POLLOCK:

… and there's four to go, which is roughly $500 million.

BERT POWELL:

Got it, got it. Okay, thanks, thanks for the clarification on that. Just on VLI, third quarter is when you expect to close that. Is that late third quarter, do you think, or is that early on in the third quarter?

SAM POLLOCK:

Our hope is early on in the third quarter but, as you know, these things are sometimes hard to predict and very much out of our control, and particularly with Brazil and the World Cup coming up, I definitely wouldn't want to speculate.

BERT POWELL:

Okay. Then, just lastly, Bahir, the corporate costs had $6 million of other income, which is kind of a new thing, I guess. Can you help us understand that?

BAHIR MANIOS:

Yes, Bert. If you look at our liquidity table, we've got about $300 million of financial assets and cash that's sitting at the corporate level which we—you know, about two quarters ago, we started investing in highly liquid marketable securities, equity and debt instruments. So, this is just the current yield portion of that financial asset program, comprised of realized gains of securities which you buy and sell, and then distributions in income that you receive on your investment.

BERT POWELL:

Okay. Thanks, Bahir.

BAHIR MANIOS:

You're welcome.

OPERATOR:

The next question is from Michael Goldberg of Desjardins Securities. Please go ahead.

MICHAEL GOLDBERG:

Thanks. Good morning. EFH recently filed Chapter 11. Can you talk about the possibility that BIP might get involved in resolution of EFH? Does its size and complexity provide an advantage to BIP and BAM, as well as your ability to involve institutional co-investors, and what parts of EFH in particular might be of greatest interest?

SAM POLLOCK:

Hi, Michael. Thanks for your question. So, you're not going to like my first part of my answer, which is generally we don't comment on potential transactions. So, as far as what parts might fit or how we might approach it, it's a large deal, and I'm not even speculating that we're even involved, but even if we were, it's not something I really can get into, so I won't go there.

The one thing I will say is it's a big company and there's lots of great components to it. The part that would fit best with us is the Oncor subsidiary that's obviously, a world-class asset and if opportunities arose where we could buy that for value, we would definitely look at that, but I think that's really all I can mention about that particular name.

MICHAEL GOLDBERG:

Okay, thank you. I have one other one. How much would you expect the six organic investment initiatives to contribute to FFO when fully phased in, and a similar question for year-to-date acquisitions?

BAHIR MANIOS:

Hi, Michael. It's Bahir. Maybe I'll start in and maybe Sam could add some comments. So, if you look at the five acquisitions, they're comprised of transportation assets so the VLI deal, and in addition to that, the two terminals in the west coast and the terminal on the east coast. Generally, transportation assets, given a ramp-up that we see in volume and a lot of the Capex opportunities that we have to either modernize ports, or the $6 billion Capex program that we have in VLI, generally, you'll start off in the high single-digit, low double-digit range. Then over time, the next two to three, four years out, you tend to ramp up to sort of our desired range of 12% to 15%. So, that's the answer on the transport, and then the district energy business, these are more utility-type assets, so our going-in FFO yield tends to be sort of also in the low double-digits, but will ramp up quite quickly just with inflation indexation that we typically get on these contracts.

MICHAEL GOLDBERG:

Thank you.

OPERATOR:

The next question is from Brendan Maiorana of Wells Fargo. Please go ahead.

BRENDAN MAIORANA:

Thanks. Good morning. Sam, your comments on emerging markets; if I just look at the deals that were done in the quarter, other than VLI, which was talked about before their North American deal, so were your comments kind of more related to what you're working on today, or was that commentary just more to kind of answer questions that you'd been receiving from investors?

SAM POLLOCK:

I guess it's probably more the latter than the former. We do have a number of—we have a good pipeline in South America. It really arose out of some of the volatility early on in the quarter; it's probably dissipated more now, but we thought it was a good topic just to discuss. We try to pick a few themes every year to just give our perspective on, and I think we just wanted to re-emphasize to our investors why we spend time focused on those markets and why, despite some of the challenges that arise from operating in those markets, we think it's worth the effort and just a great positive for our Company.

BRENDAN MAIORANA:

Yes, no, that's helpful, it's helpful commentary. In terms of the follow-on Capex – maybe this is for Bahir – but you mentioned at DBCT, I think you started an initiative there, and you've got some more at Transelec, as well. So, on the utility side, is there any pressure on the returns that you've gotten historically in comparison to what you're doing now in terms of those growth Capex projects?

BAHIR MANIOS:

Hey. Hey, Brendan. No, I think, if you look at the Capex projects that we spoke to in the letter, being the water project at DBCT, and some of the contracts we've been winning—or mandates that we're winning, out of our Transelec business in Chile, and even some of the connections mandates we're winning in our UK distribution business, across the board, we're seeing returns that are pretty consistent with what we've been earning in the past. So, we're not seeing any pressures on that front.

BRENDAN MAIORANA:

Okay, and just from an investment capacity standpoint, you mentioned there's about $500 million kind of left to go on the few deals that you've got under agreement, and then your backlog is around $700 million or $750 million. So, that's a two-year backlog, so maybe for this year it's about half of that or about $350 million. You've got plenty of cash on the balance sheet, so it sounds like there's a lot of investment activity that is out there. How much do you think you could kind of comfortably do on your current balance sheet before you need to think about maybe selling additional assets or raising equity capital?

SAM POLLOCK:

Maybe I'll tackle that one. Yes, I think you were right to characterize the organic pipeline as something that we would execute over the next two or three years. There's usually around plus or minus $300 million from the organic pipeline that we invest per year, and a significant portion of that we finance with capex lines down at those operations, in addition to, in some cases, we have cash set aside for capital projects down at those levels. So, from the corporate line, most of the capital that we use are on new acquisitions and I think, you know, we have obviously the financial liquidity, at this pace of investing, to get ourselves into next year. But, as we will occasionally do, if there's opportunities to execute a very efficient transaction in the market in-between now and then, we obviously might take advantage of that, just because we have pretty good visibility into our ability to deploy capital. So, I guess, if your question is to ask us when we're thinking about doing another equity issuance, you know, I can't really tell you that.

BRENDAN MAIORANA:

No, I mean, it wasn't that. It was more just to think about the opportunity set maybe that's out there, and if there was a sizeable, you know, a reasonable sized transaction that came up, maybe something in the order of $250 million or $400 million, or something like that, is it fair to assume that your balance sheet could handle that? I'm just kind of thinking about the corporate cash that you have on the balance sheet, which is a little over $400 million.

You've got $500 million of acquisitions left to close. Let's say the growth capex gets funded at the business level, where you've got plenty of cash there, I'm just trying to get a sense of kind of order of magnitude of maybe how much capital you'd be comfortable deploying today with the balance sheet as where it stands. Because, I would imagine it's more than the $500 million, but it's obviously not an infinite number.

SAM POLLOCK:

Fair enough. So, we have $1.8 billion of corporate liquidity today and $500 million of that spoken for. Then, you know, I think, generally, we probably wouldn't want to take our lines lower than $400 million to $500 million. So, that gives an order of magnitude, I think, of our capacity.

BRENDAN MAIORANA:

Okay, all right, great. Thank you.

OPERATOR:

The next question is from Andrew Kuske of Credit Suisse. Please go ahead.

ANDREW KUSKE:

Thank you. Good morning. I guess the first question is really directed towards Sam. Overnight, we saw the deal from Aurizon, with Baosteel, for Aquila Resources, sort of a divide-and-conquer strategy, I guess, for resources assets and infrastructure assets in Australia. I'm just sort of curious on your appetite to align yourself with a mining company in that kind of approach. Obviously, not specific on Aquila, just sort of more broadly, is that the kind of thing you would look to do, to really hive off infrastructure assets that would really be non-core to a mining company?

SAM POLLOCK:

Hi, Andrew. I think the short answer is absolutely. I think we would be very prepared to take a creative approach to break up, let's say, an infrastructure heavy-mining company and split it between infrastructure and mining operations and have a partner take the mining operations. I think the only difference between maybe the approach that Aurizon took on that transaction, and again, I only saw little bits of it overnight, so I just read what they were doing and got a bit of an update, but I think their approach is to position themselves for future greenfield expansions that Aquila's operations might be undertaking, whereas our approach probably would be more focused on existing operations and brownfield assets.

ANDREW KUSKE:

So, do you see Aurizon just expanding into a bit of the port operations, which they really haven't had exposure before, and bulking up its already pretty extensive rail network, is being a bit more competitive with your assets in Australia, or is it really this is just a one-off kind of scenario?

SAM POLLOCK:

I can't comment on their strategy, but we've seen them get involved in a number of new potential rail and port opportunities. They were looking at a rail line and port project up just north of us, in the Galilee Basin, and I think they were also looking at some other operations in the Pilbara. So, they've been quite active in looking to build onto their business. I think some of it, you could say, is competitive; some of it's not. I think, you know, their interest has generally been on a lot of new-build situations, where that's something that we're not really that focused on. So, I think they've taken a slightly different strategic approach than us, but, definitely, they're a competitor of ours and they're a very impressive company, they've got some great assets.

ANDREW KUSKE:

Okay, that's helpful, and I guess just switching geographies, but staying in the Southern Hemisphere, your comments on your broadly emerging markets, but also more specifically Brazil, what are you seeing, really, from a capital allocation into that market? We look at a lot of external data points and obviously, Bovespa's re-rated, it sold off dramatically; it's re-rated upwards, and some of the inflows that we see from the Brazilian data look to be positive, like money's coming back in, but it still seems pretty early from any kind of M&A in that market, valuations still don't really seem overly stretched. So, how do you think about that market just in the context of what we've seen in, say, the last six months, and then the 12 months, and I guess the two timeframes would be a bit of rebound, and then the prior period really a pretty dramatic sell-off?

SAM POLLOCK:

So, I wasn't quite sure what the question was but I think you're just asking for my general comment on the market from an investment perspective; is that right?

ANDREW KUSKE:

Yes, exactly.

SAM POLLOCK:

Okay. So, I think the way you described it is right. There was a very steep sell-off and I think the capital moved out of the market pretty quickly, and we saw the reais pull back considerably, and it's since – surprising to us – strengthened a bit over the last couple of months. The overall economic performance of the country is disappointing this year. I think we're hopeful that we will start to see a pickup now that the reais has weakened and make some of the companies in the country more competitive.

I'd say we think, first, from a foreign currency perspective, it's a much better entry point than it was a year or two ago. We have seen valuations pull back a bit, although, as you've rightly pointed, they've gotten a little more expensive in the last couple of months but, you know, I think we, as a whole, think it's an attractive place to invest. We aren't seeing nearly as many competitors for transactions as we did a couple of years ago, although there might be a few more today than there was six months ago. But, you know, it's a market we're definitely focused on and we've actually got a pretty robust pipeline of opportunities that we're looking at.

So, I think to answer your question briefly, the market is good for investors like ourselves and I think that we can invest there on a bit of a contrarian basis, because many people are predicting a longer term, lower growth environment, where we have a view that we'll see the economy rebound somewhat and we have a more rosier outlook for the country than others do.

ANDREW KUSKE:

Okay, that's helpful, and then if I just may ask one more related question in relation to Brazil. Do you see any kind of interesting appetite for electric utilities—and I ask the question, in part, is that the distribution companies are struggling right now with the high power pricing and generally passing on that cost, or are really trying to hedge that cost. Is there any kind of interesting transaction that you could foresee, with yourselves and Brookfield Renewable, within that marketplace?

SAM POLLOCK:

We've generally avoided distribution companies in Brazil, just because it's the one part of the electricity sector where the government has, you know, taken a more – I'll say politely – proactive approach in influencing rates and, as a result, we think it's the one that's the riskiest from that perspective. But where we do like to invest is on the generation side, and so BREP, has pursued a number of opportunities down there and continues to do so, and we like the transmission sector; again, just because of the regulatory environment for that particular part of the business is less apt to attract government intervention.

ANDREW KUSKE:

Okay, that's very helpful. Thank you.

OPERATOR:

The next question is from Robert Kwan of RBC Capital Markets. Please go ahead.

ROBERT KWAN:

Just on the $600 million of acquisitions, I'm just wondering if you think you can add more leverage to those investments over and above whatever amounts of debt you're assuming.

SAM POLLOCK:

Robert, I guess each business, when we acquire it, we put in an investment-grade level of debt in each of the acquisitions. Sometimes we need to close with a bridge facility and then look to refinance it in short order but, we tend to, you know, within the first year or two, size a long-term, appropriate level of debt. So, I think on some of them, as the case, and in others—and I think the ones that are probably under-levered in the short run would be the transport investments, but as they look to complete their expansion projects, which we'll largely finance with capital expenditure facilities, you'll see those debt levels increase.

So, I think that, as I talked through it, that was probably your question. Over time, you'll see the transport assets, the container port facilities and VLI, slowly increase their debt levels to more normal longer term amounts.

ROBERT KWAN:

Okay. So, the other way to put it is out of the gate, between cash and potential as we go down the road, some amount of common equity, you want to basically finance the $600 million with equity sources, but we could see leverage increase over time as the CapEx build out basically becomes something closer to 100% debt.

SAM POLLOCK:

So, the $600 million is financed with equity, so that is the equity component, and in a number of those businesses there are opportunities to deploy significant amounts of capital, in particular VLI and TraPac and those expansion projects are going to be financed with debt at the operating levels.

ROBERT KWAN:

Okay. Just turning to the Australian rail segment that you're covered by the take-or-pays, I'm just wondering the volumes that you're moving right now…are you moving any material volume, or just can you comment on where the volumes are versus the take-or-pay levels, either above or below, and how material that might be?

SAM POLLOCK:

Generally, I think they're all moving volumes at or above their take-or-pay levels.

ROBERT KWAN:

Okay. As you look at the outlook for your customers' production, do you see anything on the horizon that would materially, may move those volumes up?

SAM POLLOCK:

No, I don't see anything on the horizon that would move those up. I think, generally, most of our customers are fully ramped up and are looking to just reduce costs, because I think everyone, particularly as it relates to iron ore, people are expecting prices to drop, so they're all making sure they can maintain their margins as best as possible by reducing costs. We have one customer who is probably operating at a bit less than their rate of capacity, but they've been supplementing their volumes on their contract by taking in some other people's iron ore, so they've managed to shift pretty close to their take-or-pay levels, and we'll see them continue to ramp up.

ROBERT KWAN:

Okay. Just a last question here, kind of swinging back to NGPL. For the large several pipes that kind of move south to north, we've seen some increased contracting and some good optionality, and it seems like that has been progressively moving from the easternmost pipes to those more western, which your system is one of the most western out there. So, I'm just wondering, do you think it's just a matter of time before you see better kind of long-term economics on your system, potentially projects to move more volume either into the Chicago area, or even further south into the Gulf, or is there another way to be thinking about how you see the recovery in the system over time?

SAM POLLOCK:

No, I think you described it pretty well. Obviously, it's complicated and it's evolving, but there's definitely bottlenecks in the distribution of gas that's coming – or at least that's being produced out of the Marcellus – and so it's looking for a home. As you know, REX has announced some open seasons to see if they can move gas west out of the Marcellus, and that creates, I think, good optionality, as you described it, to take advantage of that gas that's moving towards our direction and either take it north or south. We have seen an increase in customers securing long-term contracts on our network, and so that's a positive trend.

I think the things that we'll watching and monitoring will be whether or not there's any further approvals for LNG facilities down in the Gulf and, obviously, those are ones that we would likely serve and would create great value for us. So, to date, I think there's only been one that's been approved by FERC, but there are a number that have been submitted to them for approval, and if that takes place, that would be very, very positive.

ROBERT KWAN:

That's great. Thanks a lot, Sam.

OPERATOR:

The next question is from Frederic Bastien of Raymond James. Please go ahead.

FREDERIC BASTIEN:

Good morning, just one from me. Do you continue to see better opportunities in the GDP-sensitive transport and energy segments right now, or are you also coming by some promising prospects in the utilities segment?

SAM POLLOCK:

Hi, Frederic. Look, I think it's safe to say that to achieve our target returns in a 12% to 15% range, there's far more of those opportunities in the transport and energy sector than the utilities sector. The utilities sector is still pretty frothy. I think, as people digest the great transaction that SNC did with AltaLink, that will give you a sense of the valuations for that sector. Obviously, there's two ways to look at that. Obviously, that's a challenge for people like ourselves, to focus on those types of assets when they trade at those prices, but, on the positive side, it gives you a tremendous indication of the value of our own business, which I think, in some respects, is even better than what Buffet bought with AltaLink.

FREDERIC BASTIEN:

Great. Thanks, Sam.

OPERATOR:

The next question is from Cherilyn Radbourne of TD Securities. Please go ahead.

CHERILYN RADBOURNE:

Thanks very much. Good morning. Just one from me, as well. I guess there have been a couple of recent options in Australia that have attracted some pretty high multiples – this is kind of related to the question – can you just give us a bit of perspective on competition for deals now versus 12 months ago, and the kind of leverage that's being used and multiples being paid, relative to sort of the peak years '06, '07, '08?

SAM POLLOCK:

Hi, Cherilyn. Yes, well, I guess we're hitting the two areas where we've seen significant valuation increases. One is in the utilities sector, particularly in North America, and then Australia, just more broadly. You know, the multiples for a number of those recent transactions have all been north of 25%; this is related to those port transactions and toll road transactions. I'm not sure—they're not necessarily fueled by high levels of debt, although debt levels are higher than they have been over the last couple of years, but not—I wouldn't say they're anywhere near the level or the types of structures that we saw back in 2005, '06 and '07, so I guess that's a positive, but I guess there is more capital out there and equity capital that's prepared to accept lower returns, or take a little bit more risk.

As far as what that means for us, as we mentioned in our remarks, having that flexibility to invest in different sectors and in different regions is just a huge benefit, to be able to avoid some of these cost-of-capital shoot-outs and find situations in other markets that just don't have that amount of capital flowing into them. I think I'm very pleased with the fact that even in this environment, where we've seen those types of transactions, we still have been able to deploy already $600 million this year on what we think are good transactions that are lower risk and meet that hurdle that we set for ourselves.

CHERILYN RADBOURNE:

So, just in terms of your pipeline, are you still having good luck originating propriety type of deals?

SAM POLLOCK:

Yes, that is our focus, and the way we do it, as we've described in the past, is it's going out and building relationships and working with either owners of infrastructure assets or people who are looking to buy infrastructure and who need an operating partner, and trying to convince them of the benefits of our skills over and above just cost of capital.

So, we're trying, obviously, to build our business and not just be the one who invests to earn the lowest return, but the one who can invest well and create value from a business once we've acquired it.

CHERILYN RADBOURNE:

Thanks. That's all for me.

SAM POLLOCK:

Okay. Thank you very much.

OPERATOR:

There are no more questions at this time. I will now hand the call back over to Mr. Sam Pollock for closing comments.

SAM POLLOCK:

Great, thank you, Operator. We appreciate everyone's questions today, and for everyone who were on the call, and we look forward to speaking with you again next quarter to review our progress.

OPERATOR:

This concludes today's conference call. You may now disconnect your lines. Thank you for participating and have a pleasant day.