Brookfield Infrastructure Partners L.P.

Second Quarter 2016 Earnings

Conference Call and Webcast Transcript

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Speakers:

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Bahir Manios
Chief Financial Officer

Sam Pollock
Chief Executive Officer

OPERATOR:

Welcome to the Brookfield Infrastructure Partners' 2016 Second Quarter Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, simply press star and one on your touchtone phone. Should anyone need assistance during the conference call, they may signal an Operator by pressing star and zero on their telephone.

At this time, I would like to turn the conference over to Melissa Low, Vice President, Investor Relations and Communications. Please go ahead, Ms. Low.

MELISSA LOW:

Thank you, Operator, and good morning. Thank you all for joining us for Brookfield Infrastructure Partners' Second Quarter Earnings Conference Call for 2016. On the call today is Bahir Manios, Chief Financial Officer, and Sam Pollock, Chief Executive Officer. 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:

Thank you, Melissa, and good morning everyone. In the second quarter, we maintained the great momentum that we started the 2016 fiscal year with. We generated funds from operations or FFO of $230 million, or $1 on a per unit basis, which is an 11% increase over the prior year. These results were driven by solid performances for most of our businesses, in particular our Energy operating group. While we are pleased with our financial results to date, we believe that we are on the cusp of further significant growth.

One contributor to this growth will come from a large portion of our capital backlog that should be commissioned and online over the next few quarters. In addition, for the past 12 months, we've maintained substantial liquidity on our balance sheet in anticipation of executing a number of investment opportunities. We are now deploying that capital into several outstanding investments. We recently closed two transactions in the Transport and Energy sectors, deploying $310 million. Furthermore, this month, along with our partners, we are closing on the acquisition of Asciano's port business. Lastly, we are in exclusive negotiations to make investments in Brazil's gas and electricity transmission sectors, which will meaningfully expand our Utilities operating group. We expect all of these initiatives to generate meaningful growth in our FFO per unit.

Since we last wrote to you, the most significant and unexpected event to take place was the United Kingdom's referendum vote to leave the European Union. While most markets have rebounded quickly from the initial shock, a number of questions remain unanswered. We anticipate a period of uncertainty over the next few years while the U.K. and E.U. sort out their relationship. As long-term value investors, we have experience in managing and prospering during periods of economic uncertainty. Our belief is that the U.K. will continue to be an appealing country to invest in given its excellent rule of law, its culture that respects capital, favourable tax and regulatory regime for foreign companies and its central location globally. Consequently, we will monitor the investment landscape for mispriced opportunities should investors pull away from the market temporarily as these situations can often be used as good entry points to earn greater returns on capital than one might have otherwise earned in a normal environment.

In the meantime, we are confident that our current U.K. business will navigate well through these near-term uncertainties given the highly regulated and contractual nature of our operations. From a currency perspective, we hedged the entire value for sterling denominated investments ahead of the Brexit vote through a combination of FFO and balance sheet hedges. The FFO hedges are matched to estimated cash flows from the businesses over the next two years. Our balance sheet hedges were designed to protect our investment values by effectively locking in the present value of the future cash flow streams that our businesses are expected to generate over the long term at the hedged rates.

So with that as an overview, I'll now take you through our financial results and operating performance for our various operating segments, and then conclude my remarks by touching on a few corporate matters that we are pleased to report on.

First off, on financial results and specifically our Utilities business generated FFO of a hundred million dollars for the quarter, an increase of 8% from the prior year. These results were driven by yet another strong period of connection activity at our U.K. regulated distribution operations, incremental earnings on growth capital commissioned into our rate base and inflation indexation across a number of our businesses. Our U.K. regulated distribution operation continues to report exceptional results driven by increased year-over-year connections. In the first half of the year, we more than doubled our fibre connection sales compared to the previous period, largely as a result of the increased market demand for our ultra-fast broadband connectivity solutions. Fibre connections are currently a small component of our broad product mix within the business. However, at the current level of connection activity, fibre to the home sales should be a more meaningful contributor to the business going forward. So far this year, we also completed the adoption of nearly half of the 700,000 smart meters from the contract we were awarded last quarter.

Subsequent to quarter-end, our Chilean transmission business raised $350 million of 12.5-year bonds at an all-in rate of 3.875%. This was one of the lowest rates ever achieved for a U.S. dollar bond by a power and utility issuer in the region. The proceeds of this issuance will be used to repay upcoming maturities and fund future growth projects.

Our Transport segment generated FFO of $102 million in the second quarter, slightly lower than the $104 million recorded in the prior year. Our results benefited from higher tariffs across the majority of our operations, greater volumes at our rail logistics business in Brazil, strong light vehicle traffic on our Chilean toll roads and cost savings at our Australian rail operation. Unfortunately, these positive factors were offset by $8 million of foreign exchange conversion to U.S. dollars, lower vehicle traffic in our Brazilian toll road business, and the impact of tariff relief that we extended to one of our clients in Australia.

Our Energy segment performed very well, generating FFO of $43 million in the second quarter, compared to $23 million last year. This improvement primarily reflects a higher contribution from our North American natural gas transmission business and a better spread environment at our gas storage business. The commissioning of several organic growth initiatives in our district Energy operations also added to results in the quarter.

The improvement in our North American natural gas transmission operating results reflects our increased ownership in the business, the impact of de-leveraging and contributions from new contracts. The backlog of expansion projects in the business is robust. The most imminent is the Chicago market expansion which entails the construction of additional compression facilities on our Gulf Coast Line. This project should add long-term contracted capacity into Chicago from our existing interconnection with the Rockies Express pipeline.

We plan to invest an additional $80 million or $40 million at our share and expect the project to be complete by year-end. We've also completed the first phase of our southbound Gulf Coast Reversal project and we expect to see further expansions for the business associated with extensive development of natural gas pipeline infrastructure into Mexico in the 2017 and 2018 timeframe.

Our French Communications Infrastructure business generated FFO of $19 million, which is relatively consistent with the prior year. From an organic perspective, we've been actively pursuing a number of opportunities to expand our network in France. During the quarter, we agreed to a tuck-in acquisition of a small Communications Infrastructure business which will be funded with cash retained in the business. We are also participating in a French government-led initiative to provide lower population density areas in France with access to ultra-fast broadband through the deployment of fibre to the home networks. Investments in these fibre to the home networks present a unique opportunity for our business to leverage its existing assets and technical expertise, operating a high-speed fibre backbone.

I'd now like to report on two corporate matters that were both recently approved by our Board of Directors. First off, and just on our distribution levels, given our strong performance during the first half of the year and the significant amount of growth opportunities that we're currently progressing, which Sam will be discussing in his remarks, we are pleased to announce that the Board of Directors has approved a distribution increase of 3.5% commencing with the distribution schedule to be paid on September 30. Combined with the increase announced in February, our quarterly distribution has grown by 11% on a year-over-year basis, which is consistent with the guidance previously provided of 11% to 13% growth that was contingent on achieving certain capital deployment targets. The Board of Directors will review our distribution level again in the first quarter of 2017. Should we continue to execute on our current growth initiatives as anticipated, we believe that our next increase may be at the higher end of our annual distribution growth target.

We also announced today a three-for-two unit split of Brookfield Infrastructure's outstanding units. The split will be effective on September 14 for unitholders of record at the close of business on September 6. We think that this unit split will ensure that our units remain accessible to individual unitholders and to improve the liquidity of the units. It is important to note that this unit split will not dilute our existing unitholders' equity and will not be taxable in Canada or the United States.

So with that, thank you, and I will turn the call over to Sam.

SAM POLLOCK:

Thanks Bahir and good morning everyone. In my remarks, I'll make a few brief comments on our various strategic initiatives and our corporate finance strategy, and then I'll conclude with an outlook for the business.

Let me begin with the two longstanding strategic initiatives. We are pleased to say that we've recently cleared regulatory hurdles on both Niska Gas Storage and Asciano. We completed the acquisition of Niska in July, along with our institutional partners, deploying a total of $440 million of capital, of which our share was $180 million. Niska has well-located storage facilities in key producing and consuming regions, including the AECO hub in Alberta and the Wild Goose facility in California. With this acquisition, we doubled our gas storage capacity to about 600 billion cubic feet and are now one of the largest independent owners and operators of natural gas storage in North America. We acquired this portfolio of gas storage facilities well below replacement cost, which should allow us to earn attractive returns over the longer term.

As you may have heard, we mentioned on earlier calls and probably many earlier calls, we entered into a partnership agreement with an Australian ports operator, and other institutional investors, to acquire Asciano, a leading Australian port and rail logistics business for A$12 billion. Our Brookfield consortium will own a 50% stake in Asciano's container terminal business known as Patrick Terminals, and a 100% interest in a ports services operation. Patrick Terminals is one of the leading container terminal operations in Australia with the capacity to handle 3.9 million TEUs annually and has two fully-automated facilities in Brisbane and Sydney that have industry-leading performance. Brookfield Infrastructure will invest approximately $350 million and the transaction is set to close August 19.

During the quarter, we also closed on $130 million investments that will expand our Transport business. Along with institutional partners, we acquired a 57% stake in Rutas de Lima, a portfolio of urban toll roads in Peru for the total value of $430 million and as I said earlier, our share of that was $130 million. Rutas is comprised of three road segments totaling 115 kilometres, and these roads are key arteries within the Lima road network, serving as the main access to the city from the north, south and east. The Peruvian economy, which is one of the most robust in Latin America, has experienced strong GDP growth leading to 12% compounded growth in this business in the past decade. The roads operate under favourable, long-term 30-year concessions and generate stable cash flows under a fixed tariff regime, escalated annually by inflation. As Lima has experienced significant growth in recent years but has had low urban investments, we have identified further expansion projects that would provide accretive returns. We are enthusiastic about this transaction because it will further expand our South American toll road portfolio and establish an operating presence in Peru.

In addition, we are also advancing several new opportunities where we will deploy approximately $700 million to immediately grow our Utilities and Transport businesses. These investments should deliver after- tax returns on equity at the higher end of our target return threshold.

Over the past year, we have been evaluating a number of exceptional opportunities across various sectors in Brazil. While the country is experiencing political turmoil and a severe economic downturn, it is an economy with significant growth potential, solid underlying fundamentals and a strong democratic regime that is well-positioned for a good recovery in the medium term. Brookfield has been in Brazil for over a hundred years and we have a successful record of investing counter-cyclically. So while investor sentiment has generally been negative on the country, we are taking a contrarian view and investing in high quality franchises that in normal periods would not be available at a reasonable value.

Our focus in recent months has been on gas and electricity transmission assets as these are low risk utility businesses underpinned with availability-based revenue frameworks and full inflation indexation. In that regard, we are in exclusive discussions to acquire a natural gas transmission company in Southern Brazil from Petrobras. These are long-life natural gas pipelines that are well located and represent the sole infrastructure that brings natural gas to the core economic regions in the highly populated states of Sao Paulo, Rio de Janeiro and Minas Gerais in south-central Brazil. This business is 100% contracted under long-term ship-or-pay agreements. We expect to invest a minimum of $700 million into a Brookfield-led consortium alongside other institutional partners' capital.

We are also excited to re-enter the country's electricity transmission sector for the third time, given our positive experience from 2006 to 2009 and prior to that as one of the early investors in establishing many of the electricity concessions in the country many years ago. We were recently awarded a portfolio of greenfield transmission lines and are now in discussions with several sellers to acquire operating assets with a view to establish a business with substantial scale in the country. These are long-life, 30-year concession assets that earn cash flows under a stable, availability-based regulatory framework. With approximately 2,800 kilometres of greenfield projects underway in Brazil and over 10,000 kilometres of transmission lines in Chile, we are an industry leader in the South American transmission sector. We expect to deploy approximately $200 million over the next several years to complete these electricity transmission projects.

Before I close my remarks with an outlook on our business, I'll make a few comments on our corporate finance initiatives. For the past several years, we've been highlighting our strategy around capital recycling. We view the sale of our mature assets as a very low cost source of financing to grow our business on an accretive basis and as an effective way to increase return to unitholders by avoiding dilution on our high growth businesses. Over the past several years, we have successfully monetized eight investments for proceeds that exceeded $2 billion, generating returns on equity that are greater than 25%.

The next phase of our capital recycling plan is well underway. In the second quarter, we received approximately $135 million from the sale of our European gas distribution business. In the second half of 2016, we expect to close on the sale of our Ontario transmission business and dispose of our investment in the shares of Asciano that we acquired on market in 2015. In aggregate, this would generate further cash proceeds of $1.1 billion. These proceeds will be used to fund our $350 million investment in Asciano's ports business and the balance, representing about $700 million, will be invested into our Brazilian gas and electricity transmission investments.

We are already preparing for our next capital recycling initiatives and with the maturing profile of a number of our companies, we expect to generate proceeds from asset sales of $500 million to $1 billion on an annual basis for at least the next three years.

Now turning to our outlook. Overall, our FFO momentum going into 2017 looks strong. Our current cash flow run rate is solid and we can look forward to FFO growth from a number of areas. First, we have the continuation of robust same-store growth that has averaged 11% over the past two years, which we further augmented by the commissioning of a large portion of our capital backlog. Second, we have the addition of FFO commencing in the second quarter from the closing of our $660 million of investments in Australian ports, the Peruvian toll roads and North American gas storage assets. Third, we have the addition of substantial FFO from the regulated transmission assets in Brazil, which we are optimistic that we can sign and close by year-end or by first quarter of 2017.

On the acquisition front, we have not seen this level of proprietary deal flow in years. We are pleased with the numerous high quality opportunities we have to expand our various operating groups. In light of our favourable operating outlook and the positive investment environment, we believe we are well-positioned for a longer period of outperformance.

With that, I'll turn the call back over to the Operator to open the line for questions.

OPERATOR:

We will now begin the question-and-answer session. If you would like to ask a question, please press star and one on your touchtone phone. You will hear a tone to indicate you are in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star and two. There will be a brief moment while we poll for questions.

The first question comes from Frederic Bastien with Raymond James. Please go ahead.

FREDERIC BASTIEN:

Good morning.

SAM POLLOCK:

Good morning.

FREDERIC BASTIEN:

Sam, you sound quite comfortable that you can push this Petrobras deal past the goal line. What makes you so comfortable and confident?

SAM POLLOCK:

Hi, Frederic. Look, obviously I can't comment specifically on the stage where we're at in negotiations but it's pretty common knowledge that we've been in discussions with them for probably six months, and we've had exclusivity for the past close to three months. So these are fairly advanced discussions and I just feel that we have a fairly good level of confidence that we can get across the line.

FREDERIC BASTIEN:

Okay. Now during—maybe turning this next question to Bahir. During the first quarter, you loosely quantified the impact of both the rate reset and the extended tariff relief would have on your Australian operations. Are you still comfortable with these estimates?

BAHIR MANIOS:

Hey, Frederic. Yes, those are still pretty good levels going forward.

FREDERIC BASTIEN:

Okay. Just another one on the NGPL business. After your additional investments in the compression facilities that you expect to have completed by year-end, what do you reckon your FFO run rate will be on NGPL?

BAHIR MANIOS:

So I think this quarter's run rate is a good one ex the expansion project that's coming online in the fourth quarter. So if you use that as the base and then add to it probably about $3 million to $4 million relating to that project, I think that would be a good run rate going forward until we bring online a number of the other projects that we're working on.

FREDERIC BASTIEN:

Okay. Understood. I do have one last one. There have been reports suggesting that Brookfield has been considering new investments in India. Do these involve Brookfield Infrastructure at all?

SAM POLLOCK:

Frederic, it's Sam here. As I mentioned, I'm sort of loathe to comment specifically on transactions. I know there was an article on a transaction with the State Bank of India and that one doesn't relate to us. That's a private equity transaction in relation to, I think, some distressed loans. But otherwise, there are a number of initiatives that we are looking in the country. I just can't comment on them right now.

FREDERIC BASTIEN:

Okay but generally speaking, I mean how is—what's your view on India? You do have very strong views on specific countries and how does India stack within that?

SAM POLLOCK:

Yes. I actually just got back from India a couple of weeks ago. It's a country that we as an organization have been in probably for about six years now. We approached the country quite cautiously for the first couple of years. We thought it was a bit, I guess, exuberant in the enthusiasm and I guess given it was a new market for us, we wanted to be cautious. So I think our approach at that time was wise. Then going back probably about two or three years ago, our real estate group made a couple investments and we got to know the market better and we formulated a strategy of investing in the country as operators and generally as 100% owners of assets, which is probably quite different than how a lot of other people would have done it in the past. We think it's a much better way to run businesses in that country and not be dependent on local promoters. So last year I guess, we secured a transaction with Gammon which we closed on earlier this year. It's a relatively modest investment in toll roads, but that was a sector that we liked because of a regulator that was very welcoming to foreign capital and their assets that we think require capital, and people are appreciative of the quality of roads that private operators provide in the country. So it has a lot of the same dynamics as what we've seen in South America. I'd say generally I think the country is slowly improving. I think with the new Government that's in place, they're very welcoming of foreign capital and have market-oriented policies. I guess I generally—I realize it probably will not be expected but I generally say it's a positive place to do business these days.

FREDERIC BASTIEN:

Thank you Sam, that's very useful.

OPERATOR:

The next question comes from Cherilyn Radbourne with TD Securities. Please go ahead.

CHERILYN RADBOURNE:

Thanks very much and good morning. I wanted to ask a question on NGPL first. You've got a very impressive existing backlog of projects in that business, but you also mentioned some opportunities at connectivity into Mexico. So I was just hoping you could give us a bit more colour on the scale of those potential projects and just confirm those are not in the current backlog.

SAM POLLOCK:

Hi Cherilyn, it is Sam here. Maybe I'll start and Bahir can jump in if he wants to add anything. So to answer your second question first, there are no projects in our backlog today that relate to initiatives going into Mexico. It is a region where—and I think we might have mentioned this on earlier calls that the amount of gas going into Mexico continues to increase, and I think we are expecting anywhere between increased demand of 2 bcf to 3 bcf per day going in there, probably in the next couple of years by 2020. So I think we see substantial growth. There has been a number of projects that both CFE and Pemex have started to build infrastructure to facilitate that demand growth into Mexico, and so our business through NGPL and also through our gas storage facility we have in Texas as well, are looking for connections from the various headers that we have, to see if we can take advantage of new projects to deliver gas in that market. So it's a little bit of early days. I'd say this is one of the new developments that's underway. There is definitely—it's not one that I think it's a matter of if, but just a matter of when, and we are just encouraging our teams to make sure that they are closely following it and taking advantage of the opportunities.

CHERILYN RADBOURNE:

Great, and this just in terms of Brexit, the markets have rebounded pretty nicely from the initial shock as you noted. What's your sense of how investors are reacting? Like do you expect them to pull back for a while or is the level of appetite pretty much the same as it was before?

SAM POLLOCK:

So it's probably a little early to make a definitive call on the direction of people's views. What we have seen is that a number of transactions that people were preparing for prior to Brexit and that they were just waiting for the vote to take place before they launched them, have been deferred or shelved for the time being. So there is probably fewer transactions in the market today than what we would have expected six months ago. So because of the limited supply that that's probably helped balance the investment market a bit. In my discussions with a number of institutional investors, I think some of them are looking to get feedback from their investment committees as to whether or not their investment stances have changed. So I'd say that will probably take, for those large institutional investors, probably six months to a year before they formulate their views. But having said that, I think generally most of them still see the U.K. as a good place to do business for all the reasons that Bahir annunciated earlier. So I guess our view and I think where most people will end up is that the U.K. will find a way through this in a reasonable manner with the E.U. and that investment activity on a long-term basis will probably—maintained in that part of the world.

CHERILYN RADBOURNE:

Great, thank you. That's all from me.

OPERATOR:

The next question comes from Rupert Merer with National Bank. Please go ahead.

RUPERT MERER:

Hi. Good morning, everyone. You mentioned that the returns from your recent investments or investments that are coming up are at the high end of your return targets; 12% to 15%. If I look at Niska, Asciano and the Peruvian toll roads, are the returns on those investments all in that range? Can you give us a little more colour on the FFO impact we can anticipate in the near term from those investments?

BAHIR MANIOS:

Hey, Rupert. It's Bahir. I'll start and maybe Sam jumps in. I would say from an IRR perspective, the three investments that you noted would all be in the target of the 12% to 15% range biased to the upper end of that range. Then as far as the going-in FFO yield, we would expect Niska and Rutas, at least, to be at the higher end—sorry, would be high single digits FFO yield going in and then ramping up over the short to medium term to get into that range that I noted. As far as the Patrick Terminals or the ports business of Asciano, we would expect it to be low double digits going in from an FFO yield and then ramping up over time as well.

RUPERT MERER:

Okay, excellent, thank you. You also mentioned your deal flow is very strong right now and of course you have a strong liquidity position and Brookfield recently closed its private equity fund. Can you give more colour on the importance and the advantages to the public entity Brookfield Infrastructure of co-investing with these private equity funds and of other potential, say differences, between the returns that you might see versus your private equity partners?

SAM POLLOCK:

Thanks, Rupert. Look, it's—I think it's a critical element of our strategy and our capabilities. What it allows us to do is, particularly for larger transactions, be able to very quickly and confidently pull together the capital to close on these deals and the two I guess great examples from our business would be both Asciano and this Petrobras transaction, which we hope to get done. These are our transactions that face modest amount of competition. If it wasn't for the fact that we had this additional fire power, if you want to call it, from our partners to move quickly and take advantage of them, we probably couldn't get them done. We think as a result, we're getting unbelievably high quality assets and we are getting them at attractive returns. It allows us to kind of avoid some of those what we describe as those mid-market cost-to-capital shoot-outs which you read a lot about in the papers, particularly in Europe, where you just don't see attractive returns. So I think that's just a great advantage and I think the second thing I'd say is the fact that we were able to secure all that committed capital from institutional investors in a very short timeframe of about nine months, and for the broad mandate that we were looking for, just reinforces the fact that we've got a great track record and a lot of sophisticated investors who support the investment strategy. So, all in all, I'd say we are really pleased with how that went.

RUPERT MERER:

Great. In the past, you talked about the difference between valuations in public and private markets and infrastructure. Is there a different hurdle rate between your private equity funds and the public funds?

SAM POLLOCK:

No. It's the same investment. So we don't—there is no difference in the investments that we're pursuing. What we—as I think you know, we look to acquire assets and Brookfield Infrastructure participates in those purchases so they are effectively the same returns. I think maybe the question you were alluding to is just the differentiation between valuations of publicly traded companies versus the private market. I would say that discrepancy still does exist, particularly in European and some North American sectors, not all North American sectors but some, where you'll have the private market bidding at a much higher level than what we think we can privatize some public companies at. We continue to monitor the public landscape for opportunities. They are not easy transactions to execute. But that's still part of our investment strategy.

RUPERT MERER:

Great, I'll leave it there. Thanks very much.

OPERATOR:

The next question comes from Robert Kwan with RBC Capital Markets. Please go ahead.

ROBERT KWAN:

Good morning. If I can just maybe start on—follow on the private funds line of questioning. Is the plan just with the new fund, the same with respect to 40% debt participation and kind of what I'll call normal deals and then larger deals maybe open to different structures?

SAM POLLOCK:

Hi, Robert. Sam here. It's the exact same structure although this time it's approximately 30% not 40%, just given the scale of fund. But similar to prior funds, to the extent that the larger transaction then the public company will participate and co-invest and take up additional portions of the deal.

ROBERT KWAN:

Okay. Just with capital commitments from or just kind of the makeup of the group, obviously I am sure you don't want to get into your specific investors but are there a number of capital commitments from investors from previous funds? I guess what I am getting at is how comfortable are you with the willingness of the parties and the new fund to write additional direct co-invest cheques that have been helpful in some of the acquisitions that you've done to date?

SAM POLLOCK:

I would say very, very, very comfortable because that's exactly what they are looking for. In fact, many of these groups, and we have probably some of the largest, most sophisticated investors that are out there in infrastructure, they are looking to participate in transactions alongside of us and want that additional co-investment. So that definitely is not a concern at all. It is quite the opposite.

ROBERT KWAN:

Okay. Then just turning to capital recycling and future asset sales and some of the guidance you've given, given those processes tend to take time, are there any new processes that are underway and with respect to kind of your contemplated structure, are you thinking about selling assets outright or should we also think about the potential of selling down a percentage interest in some of your assets that you may still retain control but maybe just sell down percentage ownership?

SAM POLLOCK:

It's a good question. To answer your first question, the answer is no. There is no process that I could comment today that has been started. But we are internally preparing for a number of them. I think our strategy as far as recycling assets could entail both approaches that you mentioned. Some of them could be businesses that we might outright sell. Others could just be a sell-down of a percentage of the business where we would just maintain control. So I think it'll be balanced; the one thing that's—again, I'll try not to go on too long but since you sort of got me going here, the one part of the market that's very interesting which I am quite excited about is the fact that there is just a huge market today for minority stakes in infrastructure. There is no discount when you go to sell these minority stakes. What these investors want is good, strong minority protections but they are happy to invest alongside people like ourselves, so they have a lot of comfort in operating the assets. So that dynamic has just given us so many opportunities to consider in how we recycle capital. So it's a great dynamic and I think one that will help us ensure we get highest value for assets but also maintain our presence in businesses to the extent that's what we're trying to achieve.

ROBERT KWAN:

Understood. If maybe I can just finish on NGPL. Bahir, you had mentioned around the run rate for the quarter being a good one with the addition of the compression expansion. Has the way you have contracted the pipeline taken the seasonality then out of the system?

BAHIR MANIOS:

I don't—Robert, maybe I can follow up offline because maybe I am thinking about the annual, to your point, the annual run rate, so let me follow-up offline on how the seasonality will work going forward with the contracts.

ROBERT KWAN:

Okay. Then just the last thing; compression expansions typically have quite high returns and it sounds like based on what you had, Bahir, that seems to be the case here. I just wanted to confirm with the new amount of contracting, it looks like or at higher rates plus these high-return expansions, are there any issues as you calculate your earned ROE or are you good given you had a pretty recent Section 5?

SAM POLLOCK:

I'll touch on that one. I think that given what happened a number of years ago, it's obviously an issue that we watch very closely with Kinder. I think that with the amount of capital that we are deploying and the run rate EBITDA that we will be generating in 2017, 2018, I think we feel that we're into a comfortable level and that today there is no requirement for us to do any more Section 4; I think it's called application. So I think we are in good shape. Obviously, we are always at the whim of the review of the regulators and their views but I think we feel that we are in good shape.

ROBERT KWAN:

Okay. That's great. Thank you very much.

OPERATOR:

The next question comes from Bert Powell with BMO. Please go ahead.

BERT POWELL:

Thanks. Sorry, I am jumping on the call a little late here so I hope I am not tilling ground that's already been tilled. Got a couple of questions. One, Sam or Bahir, the relief for iron ore in Australia that was a bit of headwind in the quarter, was that really because we had a dip in iron ore at the beginning and it kind of went down below 50s, now come back up—my understanding from the way that works is you kind of get close to 60, there is no relief; below, you do. Is that—am I understanding how that was working correctly?

BAHIR MANIOS:

Yes. Bert, it's a tiered structure and just simplistically here is that you are absolutely right. There was a dip and that caused us to accrue an amount for the quarter. We've seen iron ore prices since than recover a little bit, so if they hold at these rates, that relief will be hopefully smaller in the third or fourth quarter, but again it's all dependent on the price. But to your point, it was the dip that created that release amount.

SAM POLLOCK:

I'd just add one thing to what Bahir said is that there is also an exchange rate component to our release is calculated in Australian dollars and so it also depends on what happens with the U.S.-Australian FX rate.

BERT POWELL:

Okay, that's great. Thanks. The volumes that drove VLI in the quarter, can you just give a little colour in terms of what was going on there?

BAHIR MANIOS:

Yes. VLI—Bert, it's Bahir again. VLI had a great quarter. We saw revenues there, probably I think if I recall correctly, about 15% and driven again, same theme, by agri volume increases that we saw, as well as tariff increases. So a nice mix of both that created for strong revenue growth year-over-year, and with some good cost containment as well, our EBITDA saw big increase year-over-year.

BERT POWELL:

Okay that's great. Thank you.

OPERATOR:

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

SAM POLLOCK:

Great. Thank you, Operator. Thank you to everyone who joined us for today's call. We look forward to reporting our progress to you next quarter.

OPERATOR:

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