Brookfield Infrastructure Partners L.P, Q1 2019 Results Conference Call & Webcast

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PRESENTATION

Operator:
Good day, ladies and gentlemen, and welcome to the Brookfield Infrastructure Partners First Quarter 2019 Conference Call. As a reminder, this call may be recorded. I would now like to introduce your host for today's conference, Melissa Low. You may begin.

Melissa Low:
Thank you, operator and good morning. Thank you all for joining us for Brookfield Infrastructure Partners' First Quarter Earnings Conference Call for 2019. On the call today is Sam Pollock, our Chief Executive Officer; Bahir Manios, our Chief Financial Officer; and Ben Vaughan, our Chief Operating Officer. Following their remarks, we look forward to taking your questions and comments.

At this time, I'd 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 risk 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'd like to turn the call over to Bahir.

Bahir Manios:
Great. Thank you, Melissa, and good morning, everyone. I'm pleased this morning to discuss our results of operations for the quarter and provide you an update on our liquidity position.

So first, on our results, we're off to a strong start in 2019. We generated funds from operations, or FFO, of $351 million for the quarter, or $0.88 on a per-unit basis, and that's up from $333 million in the prior year. On a per-unit basis, our results were up 4% compared to the prior year. And our payout ratio for the period was 71%, after taking into account our recent 7% distribution increase.

Results for the quarter reflect strong performance by each one of our operating segments, which in total delivered 10% organic growth over 2018, exceeding our annual long-term target range of 6% to 9%. Organic growth was generated by inflation indexation across approximately 75% of our business, solid GDP-driven volume growth predominantly at our transport operations and contributions from accretive capital projects commissioned during the period. Our results also benefited from contributions from our recently acquired businesses. These positive factors were partially offset by the impact of a weaker Brazilian real, which reduced earnings by $13 million in the quarter.

Our utilities segment contributed FFO of $137 million, compared to $169 million in the prior year. Underlying performance was strong, as our operating groups were able to grow their results by 5% on a same-store basis over the prior year. This was predominantly driven by inflationary increases to our rate base, combined with another strong quarter of results at our U.K. regulated distribution business.

These contributions were offset by us having less capital invested following the sale of our Chilean electricity transmission business in March of last year, higher interest expenses associated with a financing completed on our Brazilian regulated gas transmission operation and a $9 million impact from foreign exchange.

Our U.K. regulated distribution business maintained its momentum following a record year of performance in 2018. Sales and connection activity exceeded the prior year by 8% and 16%, respectively. At the end of March, our order books stood at an all-time high of 1.1 million connections, which is 12% higher than the prior year. In particular, the multi-utility product offering continues to be attractive to developers, as evidenced by the strong results which have materialized from our fiber offering, where sales are 50% higher than the prior year.

At our Brazilian electricity transmission business, we're making good progress on the development of 4,300 kilometers of transmission lines, the first three segments of which totaled approximately 1,600 kilometers which are fully operational and construction for the remaining 2,700 kilometers is on track. In April, we exercised our first option to acquire a 50% interest in 500 kilometers of operating lines from our partner, bringing our ownership to 100%. We plan on exercising our buyout options for the remaining operating lines later this year.

FFO from our transport segment was $139 million for the quarter, in-line with the prior year results. The segment benefited from organic growth of 6%, driven by higher tariff and traffic

levels across our global toll road portfolio, strong volumes at our container terminals, and higher revenues at our Australian rail operations.

These positive contributions were partially offset by the previously announced sale of a 33% interest in our Chilean toll road operation that closed in February, and the expiry of one of the state concessions at our Brazilian toll road business. FFO for this segment was also reduced by $4 million, as a result of foreign exchange, primarily the result of a decline in the Brazilian real.

Despite uncertainty over Brexit, our U.K. port operation is thriving. Container and bulk volumes remain robust, exceeding the prior year by 45% and 5%, respectively. Volume increases from our bulk and unitized customers have been driven by new contract wins and strong organic customer growth. With our container terminal nearing its capacity, we're now proceeding with the fourth phase of its expansion, comprising a total capital investment of $17 million. This will increase throughput capacity by a further 20% by mid-2020.

Our energy segment contributed FFO of $107 million, which represents a 62% improvement from the prior year. This step-change increase is attributable to organic growth and contributions from two recently acquired North American businesses.

Our North American natural gas transmission business delivered another strong quarter, generating FFO that was 23% higher versus the prior year. Results for this business are benefiting from robust demand for transport services and contributions from the first phase of its Gulf Coast expansion project. At our gas storage operations, FFO was 43% above prior year levels, as the business earned higher spreads related to cold weather conditions.

Within our distributed energy operating group, several new growth initiatives are underway at our recently acquired North American residential energy infrastructure business. We recently partnered with multiple homebuilders to be the exclusive provider of smart home technology for over 3,000 new homes. This offering will create opportunities for the sale of additional products and services to its new customer base.

We're currently progressing a partnership with a utility in Texas for a pilot program that will offer a residential infrastructure product to a subset of its existing clients. If this pilot is successful, the program has the potential to generate meaningful sales leads when we roll this out to its full customer base.

FFO for our data infrastructure segment was $28 million, and that was up from $19 million last year. Recent investments in our global data center portfolio contributed FFO of $7 million for the quarter. FFO at our French telecommunications business grew by 13% due to inflationary increases and new points of presence added to our tower network. Commercialization for the second of the four fiber-to-the-home concessions held by our French telecommunications infrastructure business has commenced with a level of take-up above – that's above underwriting and market averages thus far.

Our build-to-suit program continues to grow, with over 300 towers built over the last 12 months. We currently have a contracted backlog of 900 towers, which is expected to be delivered over

the next three years. This will provide us with strong visibility into the next phase of organic growth for the business.

I'll briefly take you through our liquidity position. Our balance sheet remains strong, with total liquidity of approximately $3 billion at the end of the period, of which approximately $1.9 billion was at the corporate level. Liquidity was strengthened during the year by CAD $100 million preferred share issuance and the sale of a 33% interest and the financing in our Chilean toll road business that generated after-tax proceeds of approximately $360 million.

In-line with our capital recycling strategy, we considered this to be an opportune time to monetize a portion of our Chilean toll road investment, as the asset had reached the mature phase of its lifecycle. We acquired a 51% interest in this road through a series of transactions during 2011 and 2012, for a total of $340 million.

Since acquisition, we implemented a number of initiatives to improve operating margins and raise investment-grade debt that lowered our cost of capital. This, coupled with strong tariff growth and a favorable tariff regime, has resulted in significant value appreciation. In February, we completed the partial sale of our interest and realized a multiple of invested capital of approximately three times.

Additionally, as this investment is held at amortized cost under IFRS, the partial sale resulted in a $350 million accounting gain that was recognized in the quarter. Because we monetized in non-controlling interest and retained control of this asset, accounting rules require the gain to be recorded directly to our unitholder equity account.

Over the course of the year, we expect to further enhance our liquidity levels as we execute on our capital recycling program. In this regard, we have entered into an agreement to sell our bulk European port operations with a sale expected to complete in June of this year, subject to regulatory approvals.

We expect to receive net after-tax proceeds of $130 million from the sale, which is approximately equal to the carrying value of the business. We remain on track to generate additional proceeds of $1.5 billion to $2 billion in the next 12 to 18 months from several other sale processes that are underway.

And so, with that, thanks for your time this morning, and I'll now turn the call over to Sam.

Sam Pollock:
Thank you, Bahir, and good morning, everyone. For my remarks today, I'll begin by providing a brief update on our various strategic initiatives. I will follow that with some comments on our current activities and thinking regarding the data infrastructure sector. And lastly, I'll conclude the call with an overall outlook for the business.

With respect to our current strategic initiatives, I'm pleased to report that we have nearly concluded the process of closing our various acquisitions from 2018. Over the last several weeks, we closed the acquisition of a 2,000-kilometer Indian natural gas pipeline and an interest in a

large-scale South American data center business. We're happy with these transactions and are progressing well on the 100-day integration plans for both businesses. We invested about $230 million into our Indian pipeline and $200 million for our share of Ascenty, the South American data center business, which included funding for Ascenty's 2019 growth capital expenditures.

Staying on Ascenty, since closing the transaction, the business has expanded recently into Chile, leasing six megawatts of capacity over the next 10 years to an investment-grade customer. This anchored contract will facilitate the construction of the facility, which is an accretive initiative that was not contemplated in our original business plan.

The business is performing well. Our partnership with Digital Realty Trust is generating the desired synergistic benefits we expected. And we are identifying other tuck-in opportunities that will grow Ascenty's presence across South America.

The last investment from our 2018 transaction pipeline that we need to close is the acquisition of the federally regulated assets in our Western Canadian midstream business. We expect this to happen in the third quarter of 2019, upon the completion of the regulatory process.

Turning now to data infrastructure. This sector continues to offer interesting investment opportunities given the large amount of capital that needs to be deployed in the space. We thought this will be an opportune time to discuss our strategy in this sector and where our future opportunities may lie.

Over the past year, we have highlighted the data infrastructure segment as an area of growth for Brookfield Infrastructure. Data has been one of the fastest growing commodities in the world and we expect this rapid growth to persist for the foreseeable future, driven by a number of factors, including greater smartphone penetration, increasing video consumption, advent of 5G networks and other new and evolving uses such as Internet of Things, AI and other applications that depend on low latency.

We have identified this exponential growth in data usage worldwide as a significant opportunity, particularly with the large-scale infrastructure investments that will be required to support data transportation and storage. As we position our business to take advantage of this secular trend, we have focused on various investment themes: first, wireless infrastructure such as telecom towers; second, fiber networks; third, data centers; and fourth, integrated data operations.

Our belief is that as people, places and objects become increasingly more interconnected, the importance of data infrastructure assets will rise. Given the ongoing evolution and innovation taking place in the telecom sector, we are seeking to detach these assets from their corporate owners and focusing on contractual arrangements that hold attractive infrastructure characteristics and bear limited technology and obsolescence risk.

Now just touching on some of the investments that we have made and where we plan to expand. Let me first touch on wireless infrastructure. In 2015, we acquired a leading independent broadcast and telecom tower operator in France with over 7,000 towers and active rooftop sites.

Growth in this business is driven by the requirement for mobile network operators to increase their site coverage to meet spectrum license obligations and improve network capacity to support higher data speeds and usage.

We believe investments in wireless infrastructure are attractive, as these are long-life assets which benefit from natural barriers to entry due to location scarcity and challenging permitting environments. In addition, our customers are willing to enter into long-term contracts of up to 20 years with embedded indexation to secure capacity.

The second area we focus on is fiber networks, and to date, our fiber investments had been through our existing portfolio of companies. Our U.K. regulated distribution business is deploying Fiber-To-The-Home to new housing developments as part of its multi-utility offering. Meanwhile, our French communication infrastructure business is rolling out four Fiber-To-The-Home networks, to connect over 700,000 households in the next few years as part of the French government's national broadband plan.

Residential fiber networks offer utility-like characteristics, due to significant cost of build-out of dense network, which in turn, limits the risk of replication. Furthermore, like traditional utilities, broadband is becoming a basic household need, as society demands reliable connectivity. We are also reviewing opportunities to acquire fiber networks, specializing in enterprise services.

The third area is data centers, and we've been most active with data centers over the last year, having acquired businesses on three continents. Our focus is on the retail colocation and wholesale data center models, with a key differentiator between the two being the amount of computing power required by our customers.

In retail collocation, customer contracts are three to five years, with strong renewal rates due to high customer switching costs. Customer stickiness is further enhanced through a platform effect, as our customers are often in multiple sites or locations, which increases the complexity of switching, given their network architecture.

Our wholesale platforms in South America and Asia are in regions where cloud computing is at an earlier stage of adoption, and this should allow us to deploy additional capital on an accretive basis to build new data centers for large technology companies expanding their presence in the region. And a good example of that is just what we did in Chile. The build-out of new sites is supported by anchor tenants entering into long-term take-or-pay contracts of 10 years or longer, which will allow us to achieve attractive, risk-adjusted returns within the initial contract term and significantly de-risk the investments.

And then lastly, we're also focused on integrated data operations. A potential area of opportunity for us in this type of asset class is the acquisition of asset-heavy integrated telecom operators. As the name implies, these are businesses that provide utility-like broadband and wireless services to customers through owner-operated tower and fiber networks. These businesses will have customer-facing activities similar to our distribution companies.

For asset-heavy operators, these activities represent a small fraction of the margin generated in the overall business. For certain large-scale businesses, an opportunity exists to consider separating underlying network infrastructure from the service business. However, this would need to be assessed in the context of the existing market structure.

In general, we believe that managing to retain the customer relationship is important, as it provides increased flexibility to tailor the network to meet customer requirements and increases customer stickiness by bundling multiple services. If the retail component has sufficient scale and credit quality, then a separation might make sense, however.

So, I'll finish my remarks now with a brief outlook. We are pleased with the performance of the business so far in 2019, and the prospects for the rest of the year remain positive. We are currently operating in an environment where mainstream economic activity is strong and the threat of an economic pullback in the near-term appears very low.

In addition, the impetus for central bankers to raise rates also appears to have waned, and thus we should enjoy lower interest rates for longer. While our business generally performed as well throughout all investment cycles, low interest rates and steady GDP growth are particularly good for us.

The results of the first phase of our capital recycling initiative are encouraging. In 2018, we've raised $1.1 billion from the sale of Transelec and redeployed the proceeds into five exciting new businesses. Once we complete the second part of the Western Canadian Midstream acquisition and achieve a full period of contribution from our newly acquired South American data center business and the Indian pipeline, our results will fully reflect the benefits of this capital recycling.

These benefits include higher organic growth potential and greater diversification. Furthermore, we believe that after removing the noise of short-term foreign exchange fluctuations, our second half 2019 FFO run rate will be approximately 22% higher than what it was at the time we sold Transelec.

As previously noted, we are making good progress on our next phase of capital recycling. We expect this phase of the program to generate between $1.5 billion to $2 billion by the end of 2020 and the proceeds of which will be reinvested into exciting new infrastructure assets. We believe we will replicate the success from our most recent capital recycling initiatives and create further unitholder value.

So, with that, I'll now pass it back over to the operator. And Daniel, I'll ask you to open the line for Q&A.

QUESTIONS AND ANSWERS

Operator:
Our first question comes from Rupert Merer with National Bank Financial.

Rupert Merer:
So, with your focus on data infrastructure today, maybe I'll start there. In your North American residential energy business, it sounds like you have a growing opportunity in smart home technology. Is there any potential overlap in your communications data infrastructure here?

Ben Vaughan:
Yes. I would say initially, that's not the strategy really, to leverage across the data center or fiber-type businesses that we might be looking at and the smart home services. So, in the future, that could come about, but at this point, there really isn't an interlinking between those two strategies across those businesses.

Rupert Merer:
All right, moving on then. So, looking at the strength you had in the energy business this last quarter, it seemed like a good deal of strength came from a cold winter. Can you talk about the seasonality of the business today and how that's changed, versus the historical seasonality patterns that we've witnessed? And how much of a contribution to that, the FFO this quarter, came from your gas storage business?

Bahir Manios:
Maybe I'll start off on that one. So, there is a bit of a seasonal impact today in this segment, albeit exactly to your point, that has been reduced over the years, as our North American pipeline business has become much more of a contracted utility-like business. That being said, a portion of those FFO streams coming out of that business, in addition to our gas storage business, do experience some seasonality.

I'd say Q1 and Q4 are typically our strongest quarters in this segment. And just for this quarter, yes, we did have a very strong quarter. It was aided by cold weather conditions that created higher volatility in gas spreads. And we did pick up that benefit, which is great and it's great to have businesses that have that leverage. And so, it's somewhere in the range of $25 million[1]. I would say, it would be the impact of seasonality that I would guide you to.

Rupert Merer:
Okay. So, the quarter would be roughly $25 million higher than what we might expect in Q2 from that seasonality?

Bahir Manios:
That's exactly right. You will see a drop-off in Q2, due to natural seasonality. And yes, that would be a good estimate.

[1] Corrected on transcript

Operator:
And our next question comes from Robert Kwan with RBC Capital Markets.

Robert Kwan: Just with the Euroports sale and you've got some pretty positive comments around PD Ports. I'm just wondering now that you've exited the rest of Europe, what is the longer-term plan for PD Ports and even just how you're thinking about your global ports business in general?

Sam Pollock:
Today, we operate, even after the sale of Euroports, in the U.K., North America and Australia – and all the businesses are performing fairly well. And I think our plan would be that even to the extent that we sell off mature businesses, we would look for opportunities to re-enter this sector on a value basis.

In the case of PD Ports, we're particularly excited about some of the recent developments that have been going on in the port. I'm sure you noticed the announcements this past week with Sirius and the fundraising activities they have underway. They have made significant strides in raising up to $3.8 billion to complete the financing package that they need to build that mine. That will have a huge impact on PD Ports, driving potentially 10 million tons through the port.

There's also some other polyhalite operations in the area that are increasing production, so we're quite encouraged by that. And then hopefully next year we'll have the commencement of the biomass power facility at PD Ports as well, which should drive significant volumes through the terminal. So that's just a fantastic news story, but it actually – as it relates to our ports business, it doesn't stop there. Our volumes and contract wins in Australia have been quite strong as well. And it's been a very good year and our business there is probably doing better than we expected.

Robert Kwan:
Got it. Turning to data – you're highlighting wireless fiber and then the integrated – just a few different things. Where are you seeing the best opportunities within those three? And then you talked about customer-facing activities. Can you just talk about your thoughts on B2B versus B2C in that business? And then the third, on the integrated side, would that be something where you would own the telecom/data equipment? And how you just think about the technological risk?

Sam Pollock:
Okay. So, I'll start, and then Bahir or Ben can chime in if they have other thoughts. But I would say today, we are looking at opportunities across all four of those segments that I described, and across the world. So, I would not say that there's any one particular component of the data sector that doesn't require capital and that there are people looking for parties like ourselves to help them.

What we're doing is obviously trying to put our capital to where we can get the best risk-adjusted returns and that varies moment to moment. But I'd say we feel confident we can likely invest in each of our regions in the data sector space in the not-too-distant future. So, I'd say I can't point you to one particular component. It's actually pretty active on all the components.

As it relates to B2B versus B2C, we're value investors. So, I think we're somewhat agnostic so long as we can get the best risk-adjusted returns. And so, each business is compared based off of the regulatory framework, the market conditions, the contractual framework and how those all come up in terms of returns. And we see opportunities in both businesses today and we're pursuing opportunities in both B2B and B2C.

As it relates to B2C in the data sector, I guess this is mostly those integrated-type businesses. What we have found is that in certain small markets, attempting to disintermediate the retail component from the infrastructure assets. Sometimes it's counterproductive because you're actually creating more risk for the business as opposed to less risk because there's – you're creating a person in between you and the ultimate user of the asset.

In large markets where you have big players who can stand behind their contractual frameworks with a balance sheet, then that's fine. But otherwise, as long as you're not really paying much for that retail component, then you're actually better to keep it, even though it might, on the surface, seem to give you more merchant exposure. So, I think people just need to appreciate that you have to do a deeper dive into understanding the dynamics before concluding that there's more risk to a B2C business than a B2B business.

So those are the types of considerations we make when looking at this. Yes, we effectively though are looking at opportunities where we can provide utility-like services to consumers through broadband and wireless. And how we get there, there's multiple ways to do that.

Robert Kwan:
Got it. And then just on owning telecom data equipment and technological obsolescence?

Sam Pollock:
Yes. I think where we're looking to invest is where the service is primarily driven by the large networks being in the fiber and the tower networks and not so much on businesses that are very sensitive to switching and whatnot. But there may be some component to that, the more you get into owning some of these service components. But again, that goes all into the underwriting analysis.

Operator:
And our next question comes from Robert Catellier with CIBC Capital Markets.

Robert Catellier:
I'd like to start with hedging. I noticed the percent of FFO hedged is now 70%. I wondered if you could give us an update on your thoughts about eventually getting around to the Brazilian reals hedge.

Bahir Manios:
So yes, as you correctly noted, 70% of our FFO today is either generated in U.S. dollars or has been hedged back to the U.S. dollar, at least for the next 24 months. In recent quarters, we added

hedges as well to the various LatAm currencies that we are exposed to, and so the remaining position is predominantly relating to the real.

We have noted in the past, as you recall, that we do have plans to hedge that currency just as interest rate differentials between the two countries, being Brazil and the U.S., have come down. But we're looking still for a rebound in the currency before we commence those activities.

At today's levels, we wouldn't be interested in hedging the currency. Our view would be that it will rebound from here, as we noted in our commentary last quarter. So, if we're correct on that call, then we would look to put on hedges against our real FFOs later on, as the currency rebounds, but not at these levels.

Robert Catellier:
Yes. I guess the fact that you're 70% hedged gives you the luxury of time. But I'm sort wondering whether or not the fact that the hedged level is so high currently, whether it's an impetus to hedge the real at all, price notwithstanding, of course.

Bahir Manios:
Yes. And what we're not trying to do here is necessarily take our business to 100% being cash flows hedged or generated 100% in U.S. dollars. So, it may be a component, depending on the analysis we do and the cost involved at that time. But we'd love to get it up to 80% to 85%. I think that's the guidance that we gave at our last Investor Day, but that all depends on if it makes sense at that point or not. So, the analysis is still it's fluid, it's dynamic, but that's our thoughts as of today. But no assurances whether or not we will get this done or not.

Robert Catellier:
Okay. One more accounting question before I go to the operations. I think you gave the FFO impact from IFRS 16 in the quarter. Did you have a full year impact you're expecting under the current makeup of the business?

Bahir Manios:
No. It was $7 million for the quarter, so it was insignificant in the grand scheme of things that predominantly relates to FFO coming out of our transport business. And you should expect those levels for the next couple of quarters as well, so it will be consistent.

Robert Catellier:
Okay. Just on the operations side, the 24% growth in container volumes across the portfolio, what was driving that? I mean it can't all be organic growth.

Bahir Manios:
So first, we had some contract wins, as Sam alluded to, at our U.K. operations. So those contributed quite significantly in the quarter. That was organic, just natural tariff increases and such that we also enjoyed. And then in our North American business, we had higher moves, activities there too. So that in total sort of equated to 24%. Some of the businesses were higher, some of the businesses were lower.

Robert Catellier:
Okay. Just moving on finally to Enercare. You mentioned that exclusive provider for home technology, smart home technology to those homes in Texas. What other business development progress have you made with Enercare? And when do you think the organic growth for that segment will accelerate?

Ben Vaughan:
Yes. Robert, it's a good question. On Enercare, we have a number of initiatives, especially in the United States, to focus on the growth profile of the business and drive growth. We're working on a number of projects to leverage the Brookfield relationships we have across homebuilding. I think as Bahir mentioned in his comments across various utility businesses we have, and we're also looking at expanding our partnerships with plumbing services, home and condo servicing type businesses.

So, in addition to just improving the basic product offering from Enercare, we're looking to leverage a lot of additional levers to get into different sales channels to drive the rental model, especially in the U.S. And in Canada, a couple of developments we've had, now entered the Alberta market. So, there are some additional markets that we're trying to enter into, once again leveraging across Brookfield.

Operator:
Our next question comes from Cherilyn Radbourne with TD Securities.

Cherilyn Radbourne:
In terms of your M&A pipeline, clearly, you've highlighted that data infrastructure is the focus this morning. I wonder if you could just update us on what you're seeing in other areas that have been topical for you, particularly energy infrastructure and then India more generally.

Sam Pollock:
Maybe I'll touch on India first. I just got back from India last week and so it's relatively topical. Just on the market itself, I have to admit, I came away quite encouraged with the macro situation there, even though there is still a significant amount of stress in the credit markets there as a result of the nonbank financials and some over-leverage that took place in that part of the economy.

But otherwise, inflation is very much under control. GDP growth looks like it will be probably the highest among the large economies in the world, over 7%. And it appears that Modi will be reelected and so – at least with his allies, hopefully, I'm not proven wrong in that. But that appears to be the general wisdom, and people see that as favorable from a business perspective, at least giving us stability there. And so that gives us encouragement to continue to focus on the market.

Today, we see a number of opportunities in that market, in the port sector, in the toll road sector as well as in the data infrastructure sector. We will continue to have conversations with Reliance Industries on various initiatives that they have underway. As you know, we did a transaction on the pipeline with them, and they've become a key relationship for us in that market. And I think

the outlook for opportunities there is quite strong. So, I'd say all in all, I think our team is doing a great job there. And there should be lots of opportunities to grow in that market going forward.

As it relates to other areas, clearly, data infrastructure is one of our key focuses. Energy continues to be of interest. I'd say with the recent stock market recovery and just the general enthusiasm, our credit enthusiasm here in North America, it's probably made it a bit more challenging in the North American energy space to do transactions. But there's still lots of opportunities. And while there may be a near-term delay in some of those, I think we'll have lots to do going forward.

We have a number of opportunities in the utilities and transportation sectors that are currently underway. And hopefully, we'll be able to progress those into acquisitions over the coming quarters. So, all in all, I'd say the environment is good and the pipeline is quite strong.

Cherilyn Radbourne:
Okay. Well, that's very helpful color. Maybe just a quick one for Bahir. You've pointed to some pretty strong growth in the second half, excluding foreign exchange. I think you've indicated previously that your hedge rates are somewhat higher in the back half of the year, year-over-year. So, should I read into that the real is kind of the key wildcard there?

Bahir Manios:
Yes. That's exactly right. We do expect to see a pickup from this quarter's results into the last quarter of the year just because our hedge rates will be about 5% to 7% higher than what they are for this quarter. And then the real will be the wild card as you noted, so absolutely.

Operator:
And our next question comes from Devin Dodge with BMO Capital Markets.

Devin Dodge:
So NGPL continues to perform really well. Can you give us an update on the opportunities that you see for this pipeline over the next one to three years? And can you give us a sense for the utilization of the asset and whether you can onboard these additional volume opportunities at a relatively low incremental cost?

Ben Vaughan:
Yes, we're still seeing some good opportunities at NGPL, predominantly driven by just the need to get more gas flowing down to the LNG infrastructure on the Gulf of Mexico. And most of the projects that we're seeing, we just completed one and we have a few other projects that are in – undergoing FERC filing and commercialization, and they're all very capital efficient. So, we don't need to build a lot of new pipe infrastructure. It's mostly compression-type infrastructure to increase flows to those facilities. So, I would describe them as very capital efficient. And it feels like that market theme we've been seeing still has a few more innings to play out. So NGPL is still positioned very well.

Devin Dodge:
Okay. That's helpful. And then the broader question, one of your larger competitors recently switched from a partnership to a C-corp structure. Just can you talk about whether it changes anything considered at Brookfield and maybe the merits of BIP remaining as a Bermuda-based partnership?

Sam Pollock:
Devin, maybe I'll tackle that one. I would say we've noted all the recent announcements. And while the background of the circumstances are different from those companies to our Bermuda-based partnerships, they are good food for thought. And I think at the overall BAM level, we are evaluating the merits of the structure, which we always do, and seeing if there's anything we can do to improve it. Today there's no plan to make any change. But I think as more knowledge and understanding comes out from what others have done, we'll definitely learn from them and take stock. But that's much as I can tell you right now.

Operator:
Our next question comes from Andrew Kuske with Credit Suisse.

Andrew Kuske:
The first question is probably for Bahir, and it's just on the AUD 1 billion of debt financing that you did. If you just give us some color around that, the tender, the rate and then where it actually resides.

Bahir Manios:
So yes, the tenor was a five-year facility that we got done with a number of institutions in the local market there. As far as the cost, I believe there's about 5%. And it resides in the Patrick's terminal business. So this would have been the business that we acquired from Asciano back in 2016.

Andrew Kuske:
Okay. And then maybe just another question, sticking with Australia. As it relates to DBCT, is there anything on the regulatory front that could be of interest? And I ask in part just because we saw Horizon just sign a 10-year commercial agreement with some of its customers and that had an upward bias in effectively the WACC that they're receiving. So I'm curious, is there's anything of note as it relates to DBCT specifically?

Bahir Manios:
Yes. We're waiting on a ruling that hopefully will come out this calendar year, if not early next calendar year, on DBCT's regulation and – but at this point, it's sort of premature to guess what it would look like. But the base business today, we're not expecting it to change at all. The regulation, if anything, could improve the facility. But at this point, it's sort of too early. There really haven't been any material developments.

Operator:
And our next question comes from Dennis Coleman of Bank of America Merrill Lynch.

Dennis Coleman:
I guess there's been quite a lot of discussion about the opportunity in telecom and related areas. And maybe just to ask a very specific question just because of quite a lot of chatter out there. I wonder, KPN has come up a lot in relation to Brookfield Infrastructure. So just – I guess the question is, more broadly, can you address that in any way? Just to give you an opportunity to talk specifically about that, if there's anything you can say.

Sam Pollock:
So, Dennis, I guess our standard answer for transactions is we can't really speculate or talk about transactions. So, whether or not there's something going on or not, it probably would be inappropriate for me to comment. So, all I can say is, that's a large situation obviously. But we are looking at various types of transactions around the world that could assist companies in surfacing value for themselves and that I think could include part of the assets or companies themselves. But I can't comment on that any more than that.

Dennis Coleman:
Sure. No. I appreciate that. And I just wanted to give you the chance to say that and we can move on. I guess my second question, you had the contract roll-off in Brazil. If you can just remind me, are there any other potential roll-offs or any progress on capturing new opportunities?

Bahir Manios:
Maybe I'll take this one. So, you're absolutely right, we did have that happen. Last year, we do have another – one of our state road concessions that expires on June 30 of this year. And then another state road, which would be the final one, that has its concession agreements expire on November 30, 2020.

In terms of an FFO impact, it would be about $4 million to $5 million a quarter for each one of those roads. But that would be offset by various expansion programs that we are carrying out in that business that have come online or are coming online, in addition to a couple of tuck-in acquisitions of roads that we've made in the prior year that are also contributing to our results. So, I would expect the impact to our FFO to be neutral, but just for people to note that there are those two concession hand-backs that would happen between this year and next year.

Operator:
And our next question comes from Jeremy Rosenfield with Industrial Alliance.

Jeremy Rosenfield:
Just from a high level and strategic perspective, and I appreciate a lot of the color on the data infrastructure. In terms of the sizes of opportunities that you're looking for, in the past, they've been sort of what I would call sort of bite-sized opportunities. Do you think that there's an opportunity to be more strategic and to go after larger targets looking forward within the data infrastructure business to really establish a much larger platform going forward?

Sam Pollock:
I'll tackle that one. I think the short answer is yes. I think we're seeing opportunities across the spectrum in terms of scale. One of our key advantages as an organization is the fact that we do

have a structure where we have committed capital that we can invest alongside Brookfield Infrastructure and it's a significant scale.

And in addition to that, those investors who have committed capital alongside of us have an interest to invest with us on various transactions, like you've seen on transactions like NTS or Asciano. Our ability to pull together capital for $5 billion to $10 billion transactions is not unheard of. And so, we can do large transactions, but it will be in partnership with others. And obviously, we'll manage BIP's capital according to its capabilities.

Jeremy Rosenfield:
Okay. Good. And then just a little bit of a cleanup, I may have missed this off the top. But there's a mention of a buyout option on the Brazil transmission infrastructure. And I was just wondering if you had a number in terms of the expected investment to execute those buyout options.

Bahir Manios:
I'll take that one. The number is going to be small, so it's going to happen in various parts of the year. That would be our expectation. On a net to BIP basis, you're talking about $25 million to $30 million here. While the number is small, it's strategically very important, as we're going to be now 100% controlling those assets. But yes, that would be the expectation as of today.

Operator:
Ladies and gentlemen, this concludes our question-and-answer session for today's call. I would now like to turn the call back over to Sam Pollock for any further remarks.

Sam Pollock:
Okay. Well, thank you, Daniel, and I'd like to thank everyone for joining the call this morning. We look forward to updating you on our progress during the upcoming year. Thank you.

Operator:
Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you may all disconnect. Everyone, have a wonderful day.