

Brookfield Infrastructure Partners L.P. (Q3 2020 Results)
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Corporate Speakers:

- Rene Lubianski; Brookfield Infrastructure Partners L.P.; MD, Investments
- Bahir Manios; Brookfield Infrastructure Partners L.P.; CFO
- David Krant; Brookfield Infrastructure Partners L.P.; SVP, Finance
- Sam Pollock; Brookfield Infrastructure Partners L.P.; CEO
- Ben Vaughan; Brookfield Infrastructure Partners L.P.; COO

Participants:

- Cherylyn Radbourne; TD Securities; Analyst
- Robert Kwan; RBC Capital Markets; Analyst
- Rupert Merer; National Bank Financial, Inc.; Analyst
- Frederic Bastien; Raymond James Financial; Analyst
- Robert Catellier; CIBC World Markets Inc.; Analyst
- Devin Dodge; BMO Capital Markets; Analyst
- Rob Hope; Scotiabank; Analyst
- Asit Sen; BofA Merrill Lynch; Analyst
- Naji Baydoun; Industrial Alliance Securities Inc.; Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Brookfield Infrastructure Partners LP Third Quarter 2020 Results Conference Call and Webcast. (Operator Instructions) Please be advised that today's conference maybe recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Rene Lubianski, Managing Director, Investments. You may begin.

Rene Lubianski

Thank you, and good morning. Thank you for joining us for Brookfield Infrastructure Partners' Third Quarter Earnings Conference Call for 2020. On the call today is Sam Pollock, Chief Executive Officer; Bahir Manios, Chief Financial Officer; and David Krant, SVP of Finance. 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 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'll turn the call over to Bahir.

Bahir Manios

Thank you, Rene, and good morning, everyone. I'm pleased to be on this morning to report on our strong results for the quarter.

We reported Funds from Operations, or FFO, of \$365 million, or \$0.79 on a per unit basis. This is an increase of 8%, compared to the prior year, as all of our operating groups reported solid operating results, in addition to contributions received from new investments completed over the last 12 months and gains on some realizations we had on our financial asset program.

On a constant currency basis, our FFO per unit would have been 16% higher than the prior year. The impact of a lower Brazilian real reduced our U.S. dollar results by \$30 million during the period. I'm pleased to share that similar to the second quarter, government restrictions had very little impact on most of our businesses, allowing them to perform in-line with our expectations. The economic recovery over recent months has had a positive impact on our GDP-sensitive operations. Two notable examples being our toll road traffic volumes, which are now currently operating at pre-shutdown levels, and connection activity at our regulated distribution business in the U.K., which is now currently averaging almost 90% of plan.

David will walk through the detailed results for the various operating segments, but before handing off the call to him, I wanted to make a few remarks on our balance sheet and liquidity position. As we've highlighted in our materials many times in the past, a fundamental element of our business strategy is to maintain a strong financial position throughout each economic cycle. Our resilience to the economic slowdown this year was aided not only by the sustainability of our underlying cash flows, but also due to the disciplined approach we've utilized over the years in financing our investments. As a result, we've maintained robust credit metrics and a solid investment-grade rating.

With the prevailing backdrop of low interest rates and supportive credit capital markets, we've taken the opportunity during the period to further enhance our balance sheet. We successfully extended maturities at attractive rates across our portfolio, which reduces exposure to any near to medium-term capital market volatility. In this regard, we completed two financings at the corporate level, which increased our average corporate term to maturity from six to eight years.

First, we issued CAD \$500 million of 12-year notes in the Canadian market to opportunistically refinance a \$450 million series of notes that are maturing in 2022. In addition to being our longest issuance to date, the new series also has the lowest coupon to date at 2.855%. Second, we issued \$200 million of perpetual green preferred units at a fixed rate of 5.125%. This inaugural issuance is our first corporate financing in the U.S. market and demonstrates greater access to capital markets and our commitment to sustainable investment practices.

Following an active quarter of capital deployment, which Sam will touch on in his remarks, our liquidity position remains healthy as we have approximately \$3.6 billion of liquidity on a total basis, with \$2.4 billion of that residing at the corporate level. Over the next six months, we will look to enhance our current liquidity position with proceeds from several ongoing asset sales that are being progressed.

During the quarter, we launched several new processes, which could generate almost \$1.5 billion of additional liquidity by mid-2021. So with that, thanks for your time this morning, and I'll turn the call over to David to discuss our operating results in a little bit more detail.

David Krant

Thank you, Bahir, and good morning, everyone. I'm pleased to be joining today's call to provide a summary of our operating results for the third quarter. As Bahir mentioned, this was a strong quarter for our business. Results reflect organic growth across our regulated and contracted businesses, as well as the initial contribution from new investments.

I'll now touch on the underlying performance of our operations, starting with utilities. This segment generated FFO of \$139 million. These results represent an increase of 6% over the prior year, after adjusting for the impact of a weaker Brazilian real. In general, our regulated and contracted utilities are performing well in the current environment. Underlying earnings benefit from the inflation indexation, approximately \$300 million of capital added to rate base and the contribution from our North American regulated gas transmission system acquired late last year.

With homebuilder activity ramping up, construction levels at our U.K. regulated distribution business are steadily improving. New connection activity during the quarter averaged nearly 90% of planned levels. The business also secured several new projects, most notably, a significant capital project consisting of 9,500 new connections that span across five of our six utility offerings.

This quarter, at our Australian regulated terminal, we received a positive draft regulatory decision, which proposes a transition to a more light handed regime. The proposed change, if reflected in the final decision, would allow us to directly negotiate access charges with users of the terminal, instead of operating with a single regulatory rate. We're excited about this potential outcome, which we expect early next year.

Moving to our transport segment, FFO increased by 5% compared to the prior year, despite some softness in toll road volumes related to the lingering effects of local government restrictions. Results benefited from higher agricultural volumes across our rail networks, the contribution of a North American rail operation and a favorable rent settlement at our U.K. port. Traffic levels at our global toll road portfolio rebounded significantly in the third quarter, however, remain roughly 5% below the same period of last year. More recently, traffic levels in Brazil for September and October have fully recovered from the impact of the shutdown, and our operations in other regions remain only modestly below plan as a result of a slower recovery and light passenger traffic.

During the quarter, our U.K. port operation received a favorable ruling on one of several ongoing arbitration processes the business has with its long-term tenants. The ruling determined that the market rate for space at our facility should be almost four times higher than current levels. In addition to increasing future earnings, the settlement included the payment of backdated rent since 2016.

FFO from our Energy segment totaled \$115 million, a meaningful increase compared to the prior year quarter. Our midstream businesses performed well, with FFO increasing 16% on a same-store basis, compared to Q3 2019. These results speak to the critical and contractual nature of our midstream infrastructure, and the long-life economic resources which support them. With no direct commodity exposure and approximately 85% of our current revenues secured under long-term contracts, we are well-positioned to withstand potential energy price volatility in the future. Our distributed energy operating group grew by approximately 20% relative to the prior year, after removing the impact of the Australian district energy system we sold last November. This growth was driven by strong performance at our North American residential infrastructure business, which added over 55,000 long-term annuity-based rental contracts during the last 12 months.

Our North American district energy systems have benefited from heightened consumer interest in sustainable and capital-light solutions to meet their heating and cooling needs. In addition to being selected as the preferred bidder to develop sustainable energy systems for 14 mixed-use buildings in Toronto, we closed on several exciting growth initiatives during the quarter, including two separate 40-year agreements to operate, maintain and modernize large district energy systems in the United States: the first with Syracuse University and the second with the National Western Center in Denver, Colorado. These initiatives, combined with the signing of five new 25-year capacity-based contracts, will provide incremental annual EBITDA of \$25 million, with BIP's share being approximately \$9 million, once fully commissioned.

Lastly, our fast-growing data infrastructure segment delivered FFO of \$50 million, which represents an increase of nearly 40%, compared to the prior year. We have continued to expand our global data transmission and distribution portfolio, and this step-change increase in FFO reflects several new investments completed in the last 12 months. Results for the quarter include the first month of earnings from the acquisition of 135,000 telecom towers in India, as well as contributions associated with investments made in New Zealand and the United Kingdom late last year.

With that, I will now turn the call over to Sam for an update on our strategic initiatives and an outlook for the business.

Sam Pollock

Thank you, David, and good morning, everyone. As David just mentioned, I'll briefly discuss our strategic initiatives that we have underway and then touch on our outlook for the balance of the year and into 2021.

During the quarter, we closed on two large-scale acquisitions, deploying \$1 billion. These investments should meaningfully contribute to our results going forward. In August, we acquired a portfolio of 135,000 operational telecom towers in India from Reliance Jio, and in September, we acquired an interest in Cheniere Energy Partners, owner of the world-class Sabine Pass LNG export facility. As Bahir mentioned at the outset of the call, we also have several asset sales underway. With interest rates expected to be at low levels for the next several years, we expect significant opportunities to recycle capital. This activity will be a meaningful source of capital

for us to fund future growth and in the next six to 12 months, we should generate approximately \$1.5 billion of net proceeds from these sales.

Now turning to our outlook for the business, you can infer from our comments today that we believe that the prospects for the company for the balance of the year and into 2021 are positive. Although global economic conditions will be uncertain until the current health situation has passed, our assets have demonstrated that they have considerable downside protection mechanisms to weather any significant economic downturns.

As the economy recovers, any of the businesses cash flows that were temporarily impacted by the shutdown, have begun to return to normal levels. As a result, we expect that 2021 results will be positively impacted by a stronger economy, and potentially by a recovery of the Brazilian real, given its current low level. And now that our Indian telecom tower transaction has officially closed, we can capture a full annual contribution from the substantial going-in cash-on-cash yields this business generates.

Overall, our business is well-positioned for meaningful growth. Our contracted capital backlog is currently sitting at over \$2 billion, and we plan to commission this over the next several years. I'm also encouraged by the good momentum we are seeing with respect to new investment opportunities. Dislocation in the markets caused by the current economic environment has set the stage for some compelling investments.

Before we open the line for Q&A, I want to take a moment to thank those of you who attended our Annual Investor Day in September, either in person or virtually. This year's theme focused on the current economic environment, in particular, the resilient nature of our business and its compelling growth profile. We discussed the utility-like characteristics of our business, our strong track record of operational value creation and our predictions of an infrastructure investment super cycle. Ultimately, we feel we are creating a unique opportunity for investors to compound wealth over time in an uncertain and low interest rate environment. For those of you who are unable to listen to the presentation, a replay is available on our website. That concludes my remarks for today. I'll now pass it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

And our first question comes from Cherilyn Radbourne from TD Securities.

Cherilyn Radbourne

So, Sam, on the BBU call last week, Cyrus mentioned that M&A activity had picked up quite strongly since the summer, after briefly coming to almost a halt. Just curious if you've seen the same kind of normalization at BIP and where the bid/ask spreads fit?

Sam Pollock

I'd first say, we had good activity throughout the whole year. There's no doubt that for a period of probably two or three months, there were fewer processes underway, particularly from March into June. But anything that was, sort of, deferred, quickly came back online, and we probably

had a bit of an acceleration of activity for some of that, just catching up. So, I guess, in short, I'd confirm what Cyrus has said around activity levels today.

In respect to bid/ask spreads, things are as robust as they were prior to the pandemic. There is a lot of capital. Having said that, we are still able to find good opportunities by leveraging our teams around the world and our operations. But with low interest rates for the foreseeable future, it will be a competitive environment.

Cherilyn Radbourne

Great. That is helpful color. Bahir, in your remarks, you mentioned some gains on financial assets. Does that imply that there's been some further monetization of the public toehold positions?

Bahir Manios

Yes, we did have a couple of realizations in our portfolio. We built up a couple of other positions also during the quarter. So on a net-net basis, from an asset perspective, I believe we are flat, but we did have, yes, a few dispositions and as a result of that, we had a few realized gains that were recorded in our results.

Operator

Our next question comes from Robert Kwan from RBC Capital Markets.

Robert Kwan

Just kind of turning to the M&A side and midstream specifically, with what we've seen recently in the midstream share prices, just wondering what opportunities you're seeing? And if you can talk a little bit just around the framework as you approach these types of acquisitions. Specifically, are you focused on trying to find assets where maybe you can get integration or revenue synergy benefits? And also, if you went with a corporate deal, what percentage of business mix would you be comfortable with if they had commodity exposure?

Sam Pollock

I'll tackle that question. I guess the first part of your question was just what type of opportunities to extract value from businesses do we look for. To the extent that we can leverage some of the existing businesses we have to extract those revenue synergies, we definitely would factor those into our analysis. And obviously, we try to find complementary businesses to things that we already own. Sometimes that's not possible, and then we look at opportunities on a discrete basis and look for things where we think we can bring some value. So that could be with opportunities to invest further into the business to either reduce costs or grow a particular platform if it's been capital starved.

We see that today, particularly in midstream, where there is a shortage of capital in a number of companies, so they're not investing the capital they normally would. A big part of the value opportunity today is buying, essentially, for value. Many of the businesses today are trading at well north of double-digit AFFO yields and we think that there's an ability to get a return of capital very quickly from some of those investments. So that would be the framework. The one thing that we do take into account is the likely re-rating of midstream investments is not clear

and so we would not make an investment in the midstream sector today predicated on some sort of future rerating. We would look at the cash flows and run those off. Your second question was what again, Robert?

Robert Kwan

Yes, just around what percentage of the business mix would you be comfortable with that had commodity exposure?

Sam Pollock

We don't have a hard and fast rule on that. But in the midstream sector, as you can see from our existing portfolio, we favor businesses that are substantially contracted on a long-term basis. Today, as David mentioned, 85% of our revenues across all our businesses are contracted in some fashion. That's probably not a terrible rule of thumb as far as what we would seek to achieve with any future acquisitions. There always is some portion. Even if you look at our recent Cheniere transaction, where there's some portion that may benefit from commodity or merchant revenues. But we would probably predicate the vast majority of our return on contracted cash flows.

Robert Kwan

If I can just finish with a question on how you're viewing the BIPC premium. And I guess, maybe there's two parts to this. The first being, you've typically targeted that 12% to 15% equity IRR, which is really just how you approach an asset acquisition, irrespective of how you finance it. Do you see, though, the BIPC premium as giving you the ability to, kind of, achieve better returns because of where those shares are trading? Or does it give you the ability to maybe do some deals that have lower asset returns, but if you can answer it with BIPC, you can, kind of, achieve a better corporate return? And then the second part of the question is how are you, kind of, thinking about BIPC as the potential to maybe just optimize the mix of LP units versus corporate shares on an accretive basis from an FFO perspective per unit?

Sam Pollock

Okay. So there was a lot to unpack there. Let me see if I can provide something insightful. So, we've always looked at our units as an opportunity, even before BIPC was created, as a way to create value. Today, I think we've been fairly clear that we expect to fund probably the majority of our future investments from capital recycling for the next couple of years at least. But to the extent that we can opportunistically complete a large-scale transaction and either issue or utilize BIPC or even BIP LP units, we will take advantage of those. And the fact that there is a lot of interest in the BIPC units, gives us confidence in being able to use that as a currency.

So, I guess, the short answer is yes, we will see if we can do that, but at the same time, we're not deviating from our strategy, which is to do the vast majority of our base level investment through capital recycling. So that's not changing. And then I think your second question really was, you were asking about optimizing the relative number of units, both of the LP units and of the shares. I think that was your question. And the only thing I would say in that regard is, we will continue to look for opportunities to increase our float of the BIPC shares and whether or not that's issuing those, and in the future, maybe buying back BIP LP units, we'll have to see. But we are focused on increasing the float for BIPC shares, that I can confirm.

Operator

Our next question comes from Rupert Merer from National Bank Financial.

Rupert Merer

Wondering if you can give some more color on the asset sale processes and perhaps talk about which segments the assets could come from? And then, with your asset rotation, how should we think about the target mix of the business in the future? You seem favorable on midstream and data and transport. Does that mean we should see less from the utilities business in the future?

Sam Pollock

As far as the progress on asset sales, I won't get into specifics because we typically don't. But what I would say is, as we mentioned in the remarks, the current environment is positive for asset sales. We are finding that the businesses that we are selling, at least, are very well-attended. There's lots of interest in those businesses. And in particular, anything that has an ESG angle to it, clearly are in favor. And so, some of our businesses that are in that, sort of, milieu, we're noticing a lot of interest. So I'll leave it at that as far as the asset sales where they're progressing.

As far as the segments, we have, in fact, over the next six to 12 months, maybe upwards of four to five processes underway. And we have asset sales, I think, in every single segment, from some that are components of our utilities, down to transport and even some data and energy. So it literally covers the full spectrum. We're not targeting asset sales in any segment per se. It comes back down to which businesses have we de-risked and execute our business plan and are ready for their sale in the natural course. So that's what we're targeting. It's really around the initial strategy and where we are in that strategy, not around any particular segment. We think there's interest in all these businesses.

And then your question on target mix, how we might look in the next couple of years, I think we might have touched on that a little bit at Investor Day. What we highlighted, and you sort of alluded to this, was that we expected an increase in our data infrastructure investments. I think that could represent close to 30% of our mix from about 15% to 20% now. So that will definitely increase.

Midstream, I think, will stay similar to where it is today. I think we will see opportunities maybe, there might be a moment in time when, if there's a great opportunity, that it goes up a bit. But on a long-term basis, I see that representing maybe 20% or 25%. Transportation will stay the same. And our utilities, I realize they don't happen as often, but often the transactions can be large. We are still evaluating a number of utility opportunities. It still represents an important part of our investment mandate. So, I think as far as what will go up, data will go up, midstream will stay flat, same with transportation, and maybe a slight drop in utilities to make up for that increase in data.

Rupert Merer

That's great color. On the organic growth front, you've got a \$2 billion backlog. I think that may be up a little bit. What do you think the run rate will be for organic growth? And how are you looking at the returns on organic growth relative to what you can see in M&A?

David Krant

Rupert, it's David here. I'll handle this one. In terms of the backlog itself, you're right, it has grown a little bit. Part of that is some new mandates that we've won. Notably, we'll have the sixth liquefaction train at Sabine Pass coming into our energy segment. So, you'll see a bit of a bump up there. But in terms of overall target returns, I'd say, these still provide some of the best risk-adjusted returns we can see. It obviously depends on the size and timing of the project, but you'll see those contributing into results starting in Q4 with a few meaningful projects, as well as a large one at NGPL scheduled for mid-next year as well. So, you'll see them come into our earnings pretty steadily, but a bit lumpier on the energy side.

Rupert Merer

How much of your investment will come from organic? So how much of that \$2 billion could you see over the next 12 months?

David Krant

Similar to our current spend, I'd say we're on pace for \$800 million to \$900 million of growth capital spend for the year, which roughly, we equity fund about 50%. So, the M&A part, I think we gave a bit of guidance, it could range between \$1 billion and \$2 billion depending on the year. So it will make up a significant portion, but certainly similar to the levels we've seen for the last year or so.

Operator

Our next question comes from Frederic Bastien from Raymond James.

Frederic Bastien

You're pointing to solid growth next year in spite of a pretty ambitious capital recycling program. Can you get there organically and with the investment you just completed? Are you assuming sort of a normalization of the headwinds you've been facing this year like currency?

Bahir Manios

I think our expectation would be, as we've highlighted, that we do think investment activities should be strong for the foreseeable future. So, we have a good amount of conviction that even though we have a number of sale processes on the go where we would expect to have outsized proceeds coming from those. We would expect that, that will be reinvested back into highly compelling opportunities. So that's driving the majority of that.

On the Brazilian real, we don't really forecast for that. We're just noting that it could be a tailwind for our business, but all we can do for next year is just maybe make some assumptions on our end as to how much we can sell, how much we can buy and what kind of organic growth we're seeing in the business, which we actually think is going to be a really good year on that front, as well as David highlighted, and also given the economic recovery that hopefully will start happening starting next year.

Frederic Bastien

With respect to the Reliance Jio investment you just closed, I understand there might be some additional opportunity that may arise from your relationship with the owners. Can you provide a bit of color on that or expand, if possible?

Sam Pollock

I guess there's two things. The first thing is just the portfolio itself, there is significant growth that we expect to come out of the business over the next two years. We have roughly 40,000 towers that are planned to be constructed, which represents, I think, close to \$1.5 billion of capex, which would generate, once they're fully built, maybe \$20 million or \$25 million of additional run rate FFO. So that's fantastic, and that's all debt funded inside the business.

So that, for sure, is going to take place. As far as other opportunities, as you recall, the tower transaction came out of the fact that we developed a relationship as a result of the pipeline transaction that we did with them. So we are hopeful that as they continue to grow their franchise across India, and today, they are, I think, by far, the largest company in the country, we see opportunities to do more things with them. So we'll continue to look for that, but there's nothing that we can tell you today that's in the works.

Operator

Our next question comes from Robert Catellier from CIBC.

Robert Catellier

I'd just like to go back to the midstream business for a second. It looks like there was some pretty strong same-store sales growth there which seems out of context given the market conditions. So, can you just provide more color on the operations as to what led to the outsize?

Bahir Manios

Predominantly, most of that relates to better spreads in our gas storage operations. I'm pretty sure that reflects for most of the impact in that business.

Robert Catellier

Okay. So that tends to be a more volatile business. Some great periods and some normal. So maybe an outsized period here?

Bahir Manios

That's right. I've classified it as a bit more lumpy. The rest of the business is in our midstream operating group, as Sam alluded to earlier, are predominantly contracted. There is a little bit of market-sensitive revenues, but they don't tend to move the needle all that much. So it's really just mostly the gas storage spreads.

Robert Catellier

Yes. Okay. That's helpful. And then two capital allocation questions. Maybe if you look at your experience in 2020 and the impact that COVID-19 has had on the GDP sensitive businesses, obviously, you can't plan for pandemics or things like that, but I wonder what it does for your appetite to invest in those more GDP sensitive businesses. And following that, for example,

while you may not want to monetize toll roads at the bottom, is that an area you'll continue to invest in as an asset class?

Sam Pollock

Okay. I'll tackle that. I didn't quite get the last part, but I think the first part of the question was just, has our appetite for GDP sensitive business has been waned at all from what took place this year with the pandemic. And look, I would say the short answer is, no. We think transport continues to represent an important component of our mix of investments. In fact, I think we may be able to potentially add some sectors that historically have been very expensive to answer in that regard, I'm referring to the airport sector. I think the way we've always looked at the GDP sensitive assets is making sure that we put the appropriate risk-adjusted returns to them.

I think in the past, some investors have maybe been a little bit too aggressive and not consider the fact that there are cycles. And even though this was a uniquely induced recession, there are always recessions. And so those GDP sensitive volumes can go down. So we'll continue to look at the sectors. We'll factor in new things that we've learned this past year into our analysis. We'll use the right return levels and hopefully be able to buy for value if other investors now decide that they don't like the volatility.

Robert Catellier

Okay. That's helpful. And then my last question here is on the big picture on distribution. Obviously, I'm not expecting to tip your hand on the distribution today, but there's been a lot that went into 2020. On the one hand, the obvious headwinds from the economic shutdowns and related to that, the currency on the other hand, those businesses are returning to trend levels. And at the same time, there's a lot of opportunity in the vest as well as making sales. So, I guess, ultimately, the question is, does the actual reported results in 2020 have a significant influence on how you look at distribution policy, given that they've returned to trend loan levels?

Sam Pollock

So, look, as you said, it's a little premature for us to speculate on the final deliberations of the board. But what I would say is probably the most important thing that they will look at is the ongoing earnings generation capability of the business, which I do not think has been impacted by what went on this year. And in fact, if anything, we've determined that the business is extremely resilient to anything that can come up. And so, we have provided long-term guidance as to what our targeted distribution levels would be in that 5-9% range. And so those are probably the best markers that people should think about as far as what we're aiming to achieve.

Operator

Our next question comes from Devin Dodge from BMO Capital Markets.

Devin Dodge

I wanted to get started by getting your thoughts on the Chilean market. I know you sold most of your investments there in recent years. But from a new investment standpoint, is this a market that you're likely to avoid until we get better visibility into that political and business landscape? Or do you think there could be some interesting opportunities that become available?

Sam Pollock

So, it is a market we continue to look at. We are obviously cautious around certain sectors inside the economy where we think there is the most potential for populist measures by the government. The country is going to draft a new constitution. The way the process has been established, we don't expect there to be massive changes in the direction that they will draft up, but there will be some areas that could be impacted.

I think the social safety net will definitely be widened, and there is every expectation that the annual spend on welfare will be higher and the availability of education and those sorts of things will be greater. There's probably also going to be renewed examination of the laws around the water sector. So that's probably one sector that we would be cautious on until we see what the new constitution looks like. Having said all that, we still believe it's one of the premier destinations for investments in South America. Our focus may be large on B2B businesses in the near term. But I'd say, overall, it's a country, in spite of some of the additional uncertainty due to the constitutional process, it's still a great place to invest.

Devin Dodge

Okay. That's helpful. And maybe just a question on your Australian rail business. I think back about a year ago, I think there was some optimism around some potential new opportunities for that business. I suspect the pandemic may have at least delayed some of those but how are you thinking about the prospects of Arc Infrastructure over the next few years?

Bahir Manios

Devin, it's Bahir. Maybe I'll take that one and Ben or Sam might chime in. But yes, we did allude to certain projects that we'd been analyzing at the time in our business. These will be highly accretive, and it would be great if we can get them done. As you alluded to, probably the situation this year has slowed down the negotiations somewhat. But activity levels in the region remain very robust. Our results in that business are very good, our clients are doing very well. Iron ore prices have held up nicely. And so, we'd be optimistic that there could be some opportunities there where we would execute on a number of growth projects over the short to medium term, but nothing concrete to tell you about at this stage.

Ben Vaughan

I would just generally add, I think Bahir covered it all, but generally, I think our outlook would be positive – our clients are engaging us about expansions and moving more along the rail. And while nothing has firmed up yet, there are a number of discussions and the region is very active, which is just a positive for the business.

Devin Dodge

Okay. That's good. I'll just sneak in one more quick one here for Bahir, but can you remind us of the hedged currency rates in 2021? And any early read on how 2022 is shaping up?

Bahir Manios

Devin, maybe I can follow-up on those off-line. I don't have them, I apologize, handy. But we're fully hedged on all OACD currencies, just to remind everybody, for 2021 and going into early 2022. But I'll follow-up on some of them more on the specifics offline.

Operator

Our next question comes from Rob Hope from Scotiabank.

Rob Hope

I wanted to follow-up on just a midstream M&A question from before. Recently, you've been talking about the potential that North American midstream could be an attractive place to invest in. Does the potential change of U.S. administration favoring Biden potentially alter this view? Will you take a little bit of a wait and see approach? Or are you quite happy with the longer-term prospects?

Sam Pollock

I think the change in administration was obviously something that we've been aware of for a number of months. It was always a possibility. And even with or without the change, the long-term direction towards ESG considerations around the whole midstream sector has been going in the same direction. So it may be accelerated slightly. Now that it looks like there will be a new administration. But having said that, our view towards the sector hasn't really changed.

I think the fact of the matter is any assets that are operating today, clearly have a significant scarcity value. The ability to meaningfully expand or build new pipelines is going to be very challenging and even more so challenging with the new administration. And so we think it means that the assets that we own today are extremely valuable. And to the extent that we can acquire new businesses for value, then that's something we'll look at. But we'll obviously have to buy them with the characteristics that I mentioned earlier in the call.

Rob Hope

All right. That's helpful. And then just a more detailed oriented one. Good to see the U.K. utility business's connections rebound there. But how are we faring kind of into November and potentially December given the increasing stringency lockdowns there?

Ben Vaughan

Yes, we're faring very well. The business, I'd say, in the depths of the original lockdown was about 40% of normal activity. That increased to 90% and through Q3. And in the last few weeks, we've been up to 95%. So we've seen an ongoing pickup in activity. And the new lockdowns that have been announced in the U.K. do not include a shutdown of construction activity. So, at this point, we don't see any signs that that trend is going to reverse.

Operator

And our next question comes from Asit Sen from Bank of America.

Asit Sen

I appreciate the color on midstream and ESG. But I just wanted to ask you on U.S. LNG following the recent acquisition. How are you thinking about business fundamentals here and availability of such assets? On one hand, you have a fairly volatile global gas market in the regulatory regime, but on the other hand, like you pointed out, U.S. LNG is a low-cost way into a global decarbonization effort. So I just wanted to see how you see the availability and appetite to deepen that portfolio.

Sam Pollock

So, not to repeat myself and what you just said, but we think that U.S. LNG is critical to achieve the global decarbonization goals for the next 20-30 years. And that's a big part of our investment thesis, both for Cheniere, but also some of the existing pipelines we own like NGPL that feed all those terminals. We will look to potentially add to the portfolio where it makes sense.

There is a general lack of availability, particularly from the public capital markets for the midstream sector, which I think is creating opportunities for private investors like ourselves who have capital and access to private investor partners, such as pension funds and sovereign wealth funds to invest in these businesses. So, we will use the advantages that we have to make additional investments and we see North America as one of the best places to do that. It's well established, low cost and obviously, we know the region very well.

Asit Sen

Got it, Sam. And if I could follow-up on the same lines. You recently issued \$200 million in green preferred units. Just wondering, broadly, again, how do you see opportunities in the energy transition value chain? And recognizing that some of these early stage investments, people are talking about hydrogen, et cetera, could be very early stage in nature, but how does the investment in this theme fit into your investment framework? And anything you can offer on that on a conceptual basis?

Sam Pollock

I think it's early days for us to report. I think in the coming quarters and years, you will probably hear from us the status of where we are in a number of those initiatives. We have begun to examine opportunities within our portfolio, particularly the gas storage business, as well as our gathering and processing business in British Columbia for opportunities to either introduce a hydrogen component into our mix to create a different product or just to electrify some of our activities today to reduce the carbon footprint of those assets. So that's something that's underway across almost all our assets. But I think it's safe to say that we're in the early innings of that and so we have a lot more work to do before we can come out with something more concrete and reportable.

Operator

Our next question comes from Naji Baydoun from Industrial Alliance.

Naji Baydoun

Just a couple of questions on the U.K. port operations. You mentioned the ruling there. Can you just give us more background on that process? And what are the terms and the length of the existing contract with that customer?

Ben Vaughan

We have a number of rent reviews ongoing in this business and generally speaking, we probably have several more to come in the coming quarters. These are all long-term contracts. And generally speaking, the process we go through is one where there's essentially an arbitration of the new rental rate and specifically, there are a number that have gone on. So, this wasn't just one binary rent review. So, I can't comment on the specific duration of this one but there are several

going on and these rent reviews are upward only. So, as we continue to execute these in the coming quarters, we expect basically the FFO of this business to continue to go up.

Naji Baydoun

Okay. I guess it sounds like you've identified several, sort of, areas where you think the contracts are below market. And I guess the question is, can you maybe quantify the path to increasing the cash flows from those contracts?

Bahir Manios

Naji, it's Bahir. Maybe I'll take that one. The impact this quarter from this particular settlement that we have executed during the quarter was about \$10 million. And we'd be hopeful that there could be another settlement that we execute on, maybe in the fourth quarter and some in 2021, but they could be in the order of magnitude of about \$5 million to \$10 million per settlement, if you will. That's just a rough guide. It all depends on which settlements we do, by when.

Naji Baydoun

Okay. That's very helpful. And just maybe going back to the airport or air travel sector. How comfortable are you pulling the trigger on, let's say, an airport or an airline at this point. Would you say you're still in the early stages of looking at these types of opportunities? Or would you be willing to make an investment right away if the right opportunity came up tomorrow?

Sam Pollock

I guess, I mean, there's a number of considerations that you have to take into account. Obviously, value being the most important one, but the short answer is we would execute tomorrow if the right opportunity came up. The right asset for the right price. So we're not waiting to see what happens with air travel.

Operator

Thank you. And that does conclude our question and answer session for today's conference. I'd now like to turn the conference back over to Sam Pollock for any closing remarks.

Sam Pollock

Okay. Thank you, operator, and we appreciate everyone who joined us on the call today, and thank you for listening in and for your ongoing support.

Operator

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