Participants

Bahir Manios, CFO of Brookfield Infrastructure Partners (BIP)

Nate Abercrombie, The Stock Podcast

Interview Transcript

Nate: Bahir Manios, thank you so very much for joining the podcast. It's going to be a pleasure talking to you and about Brookfield.

Bahir: Hi, Nate. It's great to be on with you today.

Nate: It's great to have you. It would be really great to hear about your background. Could you just tell us a little bit about yourself and your history at Brookfield Infrastructure Partners and your sort of path to the role of CFO?

Bahir: Sure, Nate. I must warn you though that I'm much comfortable talking about the business itself than about my own stuff, but I'll give it a shot here.

Nate: I appreciate that. I like humility, so it's great to have some humility on the program.

Bahir: Exactly. So I joined Brookfield Asset Management, so this would be BIP or Brookfield Infrastructure Partners' parent company, back in 2004. I had just graduated from the chartered accounting program from one of the big four accounting firms, then joined the company's corporate group. And for about two and a half, three years, really just got involved in many different aspects of the company's finance, treasury and control functions. And then early in 2007, I had heard about our plans to do a spinoff of five smaller assets that were in Brookfield's balance sheet at the time and that we were using to create this pure play infrastructure vehicle. So it sounded interesting and I was pretty eager to get involved, so I put my hand up to the assignment of working on this spinoff and really just getting the company listed and organized to conduct and carry on operations. So that all happened early 2008. We got the partnership listed, I want to say January 31st that year. I then took on a controllership function for BIP right after the company was listed; moved to London in 2010 to become the CFO of our European business and really just to help build out our presence in that part of the world before coming back to Toronto in 2013 when I was appointed to be the CFO of BIP and I've been in that role ever since then. So, basically, in a nutshell, I've been with the Brookfield family of companies pretty much my whole professional career.

Nate: Yeah. No, that's actually really admirable and really interesting to talk to somebody who's been with one company their entire career. It's impressive.

Bahir: Yeah. Thank you.

Nate: When I first learned about Brookfield, I learned that it was, Brookfield Infrastructure Partners, it's part of a larger family of Brookfield. Could you just sort of describe at a very high level what the family is; the family of different businesses and what the relationship is between Brookfield Infrastructure Partners to the -- is it a parent company that owns the general partner?

Bahir: That's right. That's exactly right. Brookfield Asset Management, it's a company that's been around for over a hundred years, I believe; close to a hundred and twenty years. (inaudible 00:03:34) forty-billion-dollar market cap and what Brookfield is, is a global alternative asset manager focused on investing in long life assets across real estate, infrastructure, renewable power and private equity. So in total, Brookfield manages about $330 billion of assets. Some of the premier or largest investments that it has include one of the largest portfolios of office properties in the world and industry-leading infrastructure business and one of the largest pure play renewable power businesses that include more than, I believe, about two hundred hydro facilities as well as several high quality business services and industrial companies. And so that's a brief snapshot of Brookfield. It's the largest investor in Brookfield Infrastructure Partners. It owns 30% interest in the partnership. And to your point earlier, it's the general partner of BIP.

Nate: I see. Okay. Thank you for that. Could you describe the business of Brookfield Infrastructure Partners? What's in your asset portfolio? And it would be great to just hear about the corporate structure of BIP.

Bahir: Sure, Nate. So just looking at our business this year, and I mentioned, so we spun off the business in 2008, so earlier this year we celebrated our ten-year anniversary since listing the business. And the business has grown immensely in size. At time of spinoff, we were about a five-hundred-million-dollar market cap company. And today, if you look at our business, we've got a market cap of over 16 billion with an enterprise value of somewhere between $28 or $29 billion and that makes us the largest publicly listed owner and operator of critical and diverse infrastructure networks in the world. But what we're most proud of is that we've been able to achieve this growth on a very profitable basis. On an FFO per unit basis, we've been able to grow that by, in over the past ten years, by almost 18% on a compound annual growth rate basis. And that's led to an annual average distribution growth rate of 11% in that period. And so over the years, what we've been able to build here is a business that's made up of unique, very high quality, easy to understand hard assets that have significant barriers to entry. I would say if you look at all of our businesses together on a holistic basis, the common thread that underpins our business would be the fact that we own assets that are scarce and irreplaceable, assets that have physical and environmental constraints, assets that have high replacement costs, and ones with long term customer contracts and relationships. So what I should also mention here is that our business is global. In total, we operate nine large scale operating groups in each of the key regions around the world that we do business in. So that would be in North and South America, Europe and Asia Pacific. And I think you asked also about our structure. So BIP has been set up as a limited partnership. The structure is pretty similar to master limited partnerships or MLPs, which have been around for decades and is very familiar to many investors, especially those in the US obviously. And I sort of walked through it earlier in my remarks, so it's general partner is Brookfield Asset Management. So this is an externally managed vehicle of Brookfield, of which it owns just 30% economic interest.

Nate: Could you now walk us through just your different operating segments and maybe also provide us with each segment's contribution to earnings or FFO, whichever one is the best way to frame up where your cash flows are coming from and their proportion from each segment.

Bahir: Yeah, sure. I can definitely do that. So it goes through FFO, that's the closest. FFO and AFFO, which would be adjusted for maintenance cutbacks are probably the closest proxy to the cash flow that we generate in the business so I'll go through that as the key metric I'm allowed to describe. In terms of the different segments, and as I mentioned before, we operate in four key core infrastructure segments. So the first one I'll start going through is our utilities segment. This business accounts for approximately 35% of our FFO, so these would be regulated or contractual businesses where we earn a return on the rate base that we run and operate. The segment is geographically diverse and spans over five countries; so this would be Australia, the US, Colombia, Brazil, and the UK. In total we have about $4.5 billion of rate base that we manage and we run here three operating groups within the segment and those are made up of six and a half million electricity and natural gas connections and over a million installed smart meters. The second operating group would be where we run over four thousand kilometers of regulated natural gas and electricity transmission networks. And the third one would be the regulated terminal that we own in Australia that handles eighty-five million tons or almost 20% of global seaborne met coal exports that go from the prolific sort of (inaudible 10:09) basin region in Australia and into Asia. So those are the three operating groups within our utilities segment. The next segment is our transport business and that's comprised of systems that provide transportation for freight commodities and passengers. We own and operate their rail assets, comprise of over ten thousand kilometers of track that we own in Western Australia and South America. We also own four thousand kilometers of motorways in South America and India. These are a combination of urban and inter-urban roads and a really nice mix of heavy and light vehicle traffic that we see there. And then lastly, we own thirty-seven port terminals in North America, the UK and Australia. And in total, Nate, just transport segment accounts currently for about 35% of our FFO. The third business is our energy group. And here we own systems that provide energy transmission, distribution and storage services made up of about nineteen thousand kilometers of natural gas transmission pipelines primarily in the US. We do about six hundred billion cubic feet of natural gas storage also in North America. We're also in a district energy business that provides heating and cooling services to customers really from centralized systems. And finally, the newest addition to our portfolio is a residential infrastructure company that we recently acquired in Canada and the US that provides one point eight million customers; a combination of water heaters and HVAC, this would be heating, ventilation, air conditioning rental systems. And in total, our energy business makes up about 20% of our FFO. And then last but not least, our data infrastructure segment. So here, the segment provides essential services and critical infrastructure that transmits and stores data. It consists of almost seven thousand multipurpose towers and active rooftop services and over five thousand kilometers of fiber backbone in France, and soon we'll be closing on two transactions where we will own retail and wholesale data centers in the US and South America. So that's a snapshot, Nate, of our business as it stands today. And so hopefully, what I've done here is I've given you and your listeners a sense of the size and the scale of our business today and just really how diverse it is and how unique it is.

Nate: Could you characterize the stability of cash flows when you look at the entire portfolio? And you mentioned the regulated cash flows are long term contracts and that's something that I think is especially attractive and I think that a lot of my listeners do as well. So if you could just sort of just characterize the stability of cash flows, that would be very helpful.

Bahir: Definitely. And I'll just go back quickly to our strategy since we launch this company back in 2008 has been sort of centered around building a business that would own and operate irreplaceable infrastructure networks. And so our aim is to own assets that generate low risk, sustainable cash flows; kind of similar to a utility franchise, but at the same time generate attractive growth that will provide inflation protection and capital appreciation to our shareholders. So we oftentimes compare ourselves to a utility because we share several characteristics with utility companies and namely cash flows that are predictable and have low volatility associated with them. So our ability to generate high quality earnings is really just underpinned by four, I would say, principal factors. The first is we own network that produce stable and predictable earnings as over 95% of the various cash flow streams, as you correctly noted in your question, are essentially regulated and contracted in nature. Second, our businesses produce very attractive margins due to the fact that they're capital intensive and, predominantly, they all have fixed cost structures. And then third, we have low levels of maintenance capital requirements and that's because a number of our systems are newly constructed and experience little wear and tear, if any. Furthermore, many of the regulatory frameworks in which we operate in allow us to recover maintenance costs from our end users. And the final factor is that our regulated and contracted frameworks lead to a limited merchant exposure. So essentially our tariffs in this business are effectively locked in for the long term. So on top of those sort of four principal factors I just went through, on top of that, we also have one of the most diversified businesses in our sector as I just had alluded to earlier in my remarks, and we find that that's always just the best protection you can get against unforeseen political, regulatory, counterparty issues that you might have and really limits our exposure at any one region, sector or customer for that matter. And in addition to that fact where we fixed pretty much all our debts in this business and hedge the majority of our foreign denominated cash flows, so that ensures that we have very solid, predictable and stable cash flows that don't have too much variability in them, year in, year out.

Nate: Yeah. That's very helpful and it's interesting and attractive for anyone who's interested in investing in infrastructure or utilities to hear sort of those highlights about your cash flow stability. So I guess one more sort of consideration though is just market observers are talking a little bit more about just recessions and you can just look at the volatility in the stock market today and you can tell that it's clearly on people's minds. And so I guess from your perspective, is there something that is maybe, clearly not a significant threat, but at least something that you're keeping your eye on from a recessionary standpoint that could impact or affect the cash flow stability of the business?

Bahir: Generally, even a recession, I would say, would probably mostly impact our transport or GDP-sensitive businesses today that constitutes about, call it 35%, 30 to 35% of our overall FFO. And in most of these situations, we've got very long term take-or-pay type contracts such as the ones we have in our rail business in Australia that would protect this against the downturn. We might have the odd counterparty issue that we'd have to deal with but on that, just given how diversified we are, we don't have any counterparties that would account for even anywhere close to 5% of our overall EBITDA, so we're in good shape from that regards. And so the most GDP-sensitive business that we own today would be our toll road business and that's primarily in South America. And there, Nate, what I would say is that business is very heavily tilted towards Brazil, which is actually a country, as you probably read about, that actually is now recovering from a recession. So in fact, if anything, we expect to see more of a recovery in that business as it had been hurt a little bit in the past from a traffic perspective, albeit even though our tariffs were predicted because inflation in the country was actually 12 or 15%. So we were getting that inflation tariff protection in our revenue streams but we lost out on traffic volumes when the country was going through a recession there. So look, I think in and around the edges, we might see some impact in the company but nothing that's material. And you know a lot of the people that follow Brookfield Infrastructure Partners like this defensive even though we're a company that will perform the best during times when growth rates are high, inflation are high, just given all that leverage that we have to all of that. We also are a stock that people invest in when there's a lot of volatility in the markets.

Nate: Yeah. I really appreciate the insights, so thanks for that. Could you just talk about Brookfield's business model and also just talk about executing on the strategy relative to just how competitive the sector is today. I mean, there's a lot of infrastructure funds out there that want to invest in these types of assets, some of the assets that you currently own. So talk about the business model and then just executing on that business model and that strategy going forward.

Bahir: Yeah. Sure, Nate. Maybe I'll just take you through first our business model and then we can get into sort of how our execution strategy. So for the business model, and again, what we're trying to do is build a world class infrastructure business that's diversified by sector and geography and really consisting of high quality assets with significant barriers to entry and really businesses also that have very strong organic growth potential. And so what we do here is we utilize what we referred to as a full investment cycle strategy and that really encompasses on the following. First, we look to buy high quality assets on a value basis. We target a 12 to 15% levered post-tax IRR, and we do this by focusing on situations where we can leverage our competitive advantages of scale, local presence and operating expertise to source and execute on transactions on a proprietary basis. And really we just try to avoid well attended auction processes that oftentimes lead to cost of capital shootouts. Once we buy these businesses on a value basis, we then look to implement an operations oriented approach to de-risk the businesses and enhance cash flows in those businesses over time. And that's why, Nate, it's just very important for us to have great governance rights in all these businesses. In most cases, we look to control them. If not, we will, in certain situations, do co-controlling positions as long as the governance rights make sense to us so we can actually implement this operations oriented approach that I just noted. And then finally, once a particular business reaches a certain level of maturity after you've done all that hard work and you've de-risked it and implemented margin improvement programs, et cetera, as it reaches a certain level of maturity, we seek to opportunistically exit a strong valuation in order to redeploy capital to higher returning investments. Many institutional investors out there don't have the operational expertise that we have and look for more mature businesses that have, if you will, bond-like attributes for businesses that have just been de-risked. And they look to match these kinds of investments against their liabilities. So these institutions typically attribute a higher valuation to these assets than the multiples that we would attribute to them our own selves. So all in all, when you think about it, what we're trying to do in this business is buy assets where we can deploy our operation expertise to them and then we sell the mature ones. Maybe, said another way, we sell mature income streams that we believe will earn us a 6 to 10% IRR or IRR to the buyer and we re-deploy them into income streams that we believe will earn us a 12 to 15% return. And so that's the value arbitrage that we're constantly looking for here.

So that's a bit on our overall business model. Now, as far as our execution strategy goes on how we deal with competition in this highly sought after asset class, as you mentioned in your question, there's a couple of elements to our strategy there that we have to stick to, to be successful in the current environment, which is highly competitive, and maybe I'll just take a minute and walk you through these elements. And so that's the first one is just as simple as just being patient. So our belief that investing capital below our 12 to 15% returns threshold is very value-destructive in the long term; full stop, period. We strongly believe that as long as we keep our powder dry, we will ultimately find good investments even in this type of environment. There's been a number of recent transactions that we've evaluated, I'm sure you've read about a lot of them, particularly in OECD countries where assets were sold at returns well below our return thresholds. And I would say while these were formidable businesses, our assets that we covet and we'd love to have, we just believed that remaining disciplined with our investment criteria was just so important to preserving our overall value proposition to our shareholders. Second, we look to be always innovative. Bear with me here, I know this sounds cheesy, but we recognize that most sellers will hire advisors to package their assets in a manner such that buyers in a sales process can only differentiate themselves by that the return that they're bidding for these businesses. But our investment teams just do things a bit different here. They're focused on situations where we can, again, differentiate ourselves, looking for strategies; oftentimes including creative structuring, doing balance sheets recaps, looking for unique synergies with other businesses amongst, not just the Brookfield infrastructure business, but across the Brookfield Asset Management franchise as a whole. And just the ability to leverage our scalable operating groups to execute on a multifaceted business plan, if you will. Third, we look to do small things well so investors should expect that we will focus a lot on smaller organic growth opportunities, tuck in acquisitions where we have synergies and other competitive factors just to achieve our overall return targets. Fourth, I'd say we look to be decisive, so it's very challenging in a highly liquid market such as today's market. It source opportunities where you can invest in scale on a value basis and very high quality assets. So when certain unique transactions come our way, as was the case recently in a few of the transmission opportunities in South America that we purchased, what you will see us do is we will act very decisively and we will invest in scale. And then just lastly, we're focused on executing dispositions well. This is the other value-add component to our overall strategy that we believe differentiates us from most of the companies in this space today.

Nate: Thanks, Bahir. I appreciate that. And something that you said that really resonates with me as a value investor is what were your comments about buying things that are undervalued and something that your CEO said in the most recent earnings call. And I had this quote, I wrote it down because I really liked it and it's with respect to energy and I think, in particular, midstream, was, "We built this business by capitalizing on contrarian views during periods of dislocation and market volatility." And I think, clearly, midstream exhibits a lot of that. And it's very, I think, very encouraging to see Brookfield capitalizing on these contrarian views and I do think that there's an extremely large amount of value in the midstream space. Would you mind just talking a little bit about midstream since this is -- or energy midstream, anything that you'd like to talk about in that asset class or within your portfolio and just highlight some of the value of creative deals that you're doing?

Bahir: Sure. So the two key areas of focus -- and, Nate, I'll back up here a bit. We've got a pretty large businesses. I know that the four -- in and around most of our operating groups, we're very active and we're trying to do a lot of things in most of these businesses, but in terms of investing on significant amounts of capital or on capital and scale, we're really focused on the big themes: our energy infrastructure and data infrastructure. So the first one, sort of what you just alluded to, is just on the energy infrastructure side of things. We've been following that sector very closely so I would say that ten years that we've been in business, and it had just been hard to compete with the cost of capital that a lot of these MLPs had. And so aside from our investment in NGPL, which is a big pipeline in the US, that we own in tandem with Kinder Morgan, that was purchased through a broader transaction that we did in Australia, a company called Babcock & Brown Infrastructure back in 2009, 2010. And so aside from that business, we had just found it very hard to compete in this space. But just given the market volatility in the last couple of years in the sector commodity prices where they are, many of these MLPs now are out of favor and we just find that less competitive and there's a lot of fantastic assets that could come to market. We're involved in a number of situations, as we speak. We think the opportunity set is large. There's about $150 billion based on our own math of, I'd say, opportunities that will come to market, whether it's stake private type transactions of MLPs that have limited access to capital that we will be looking to potentially help simplify or solve going forward or just large scale capex that a lot of big companies are looking to do but don't have the, again, the capital to source for that so we'll look to maybe joint venture of some of those opportunities. So we think the opportunity set and the time is right, the energy infrastructure, so stay tuned on that one. And then with data, if you look at data as a commodity, no different than buying our natural gas, oil, et cetera, it's the fastest growing commodity in the world. And so with that, a lot of spectrum needs to be built or bid by people who will look at potentially cell tower, telecom-type assets or data centers and the like. We've been recently involved in a couple of transactions on the data center deals by which we've been successful in and you should look for us to be also very involved, going into next year, in that space as well.

Nate: Thanks for that. That's super helpful and interesting. It would be great to hear sort of the growth outlook for Brookfield. What's organic? What's inorganic? And if you could touch on just how you're going to fund the inorganic component.

Bahir: Maybe before I get to answer your question, maybe I'll just step back here and just take you to our capital allocation model or our funding plan for the organization and then come back to our current position as of today with respect to our near term needs. So our priorities in order of importance here is for each dollar FFO that we generate, we typically spend about 20% of that to satisfy maintenance capex obligations that we have. We then choose to reinvest about 15 to 20% of those cash flows that we generate in hundreds of smaller, very low risk recurring projects that are businesses able to predicatively source year in, year out. And then, finally, we typically distribute about 65% of each dollar that we generate through our unit holders each year. So that, I would say, is the overall funding plan for our existing business today. In addition to that, from time to time, we do take on large scale expansion projects in our existing businesses and those would require additional capital from BIP; and also each year we typically invest about a billion dollars of equity or more in M&A type opportunities. Just to give you a sense on magnitude here, Nate, in the last five years, we've done about $6 billion of M&A and deployed close to a billion dollars of capital in those large scale expansions that I just noted. So $7 billion of capital that we've put to work. To fund that, we've raised about $2.5 billion from capital recycling activities and close to 4.5 billion in capital market issuances. So from time to time we do access the equity debt and preferred share markets in North America to do that. So that's how we look at capital allocation for our business. That's essentially a self funded model for the most part, aside from the capital market issuances that we do from time to time, to primarily fund our M&A activities. And then just getting back to your question, if you look at our current position, we currently generate over a billion dollars of free cash flow after maintenance capex, which we then use to fund those recurring capex that we do in our businesses in addition to fund our distribution to our unit holders. And then on top of that, we've got about $2.5 billion of liquidity at the corporate level currently, which is sufficient enough level of liquidity to fund the three transactions that we have secured and expect to close on in the next call it three to six months and that all sums up to about $800 million.

Nate: So if you wouldn't mind just talking about the organic growth story for Brookfield.

Bahir: Yeah, sure. So I'll just start off by noting here that organic growth engine acts as the main driver of cash flow growth in our business. Our organic growth for the business today comes from three different avenues, I would say. The first one being through inflation linked revenues that we have where 75% of our EBITDA is inflation linked, this isn't a hypothesis on our ability to capture inflation from customers, et cetera. This is all set out in the various regulatory frameworks that we operate within or the long term contracts that I noted earlier that we have with investment grade counterparties. Second, a significant portion of our revenue streams or approximately 50%, I'd say, of our revenues also provide linkages to GDP growth through surplus capacity that we currently have in our business. And then, finally, we have a significant backlog of expansion opportunities that provide very attractive risk adjusted returns for us. This amount of our backlogs varies each year and we currently have about $2.3 billion of a pipeline of committed growth projects where, generally speaking, we're able to earn very strong risk adjusted returns that oftentimes exceed 15%. And once these projects are commissioned on our own line, they're very, very accretive to our results. So in total, we give out guidance that are long term growth target for organic growth is somewhere in the range of 6 to 9% on a per unit basis. And that's a very powerful part of our story because this is highly predictable growth that our investors usually can count on year in, year out. And it also doesn't require a significant amount of fresh new capital that BIP has to go out and source. So in the past, we've demonstrated a pretty impressive track record of delivering a very strong organic growth for our shareholders. On average, we've generated in excess of 10% annual FFO per unit growth on a same store basis. And so all in all, we believe that our long term targets are very achievable and to the extent that, as I mentioned before earlier in the podcast, if we're operating in an environment of higher growth and higher inflation, we'll do better and we have the track record that demonstrates our potential to exceed the 6 to 9% long term range as we've done over the past ten years.

Nate: Yeah. That's great to hear and you've definitely proven your capabilities in growing the business and the distribution and I realized that you have a stated goal of 5 to 9% growth in the distribution or the dividend. If you do exceed those, call it 6 to 9% growth, per unit growth targets, what would that mean for the dividend of the distribution? Would you stick with the 5 to 9% or just trying to think about if the core businesses is doing really well and you're seeing really impressive growth numbers, does that change your thinking relative to growth in the distribution?

Bahir: Sure. So the rationale of why we have the 5 to 9% distribution growth target is predicated primarily on the fact that we'll be able to generate this organic growth that are just noted just because M&As does tend to be lumpy, as you know, year in, year out. And so in the past, we have exceeded the 5 to 9% even in growth targets that we have because we've averaged 11% distribution growth and we've also kept to a pretty conservative fail ratio, which in for the long term, we target 60 to 70% of FFO by way of (inaudible 41:05). So to the extent that we outperform on our organic growth targets and we do significant M&A, we will perhaps consider, depending on the business environment at the time, what that could mean to our dividends. Lately though, and if you saw what we did in 2018, we decided to retain a bit more money in the business. We increased our dividend in 2018 by 8% compared to the 11% average that we've done in the past. And that's essentially because of the fact that we've got a very large organic backlog of growth projects that we're looking to invest in and the approach on that made that we're taking, and back to my comment earlier about having a self funded model is we'll look to increase our dividend at a steady rate in the future and also at an attractive rate but we're also looking to retain a little bit more capital in the business so that a lot of this organic capex opportunities that we have is all self funded within the business.

Nate: So the Enercare acquisition, how does that fit into the overall growth strategy? And from an outsider's perspective, the business seems a little bit like an odd fit, at least relative to what's currently in the portfolio. So could you just talk about how you're thinking about growth from the Enercare acquisition? And not just growth, but how it just fits into the overall business.

Bahir: No, I'm happy to do that, Nate. Let me spend a few minutes on that one. And I appreciate that many US-based investors, and in fact, most of your listeners may not be overly familiar with this type of business. So happy that you brought this up. So the first thing I'd say is that Enercare is a company that got spun out of a gas utility in Ontario called Consumers Gas, I think probably about twenty years ago. So it was actually part of a utility company. It was the unregulated portion of it. So we became exposed to it when its biggest competitor, that's sold about two or three years ago to a Hong Kong infrastructure company, and so we looked at that competitor of theirs and we were very intrigued by the business. And so as a result of that, we'd been following Enercare for quite some time. So when the opportunity arose to buy the business, quite frankly, we just jumped at it. The business itself has three components to it. The first one is it has a Canadian 50 year old business which is made up of a series of annuities related to water heaters. The second component of their overall businesses, a company called Service Experts and that's really the business they bought to expand into the US, which is where we see a lot of the growth opportunities resides in. And third, a company called Enercare Connections, and this is the submetering business for their high rise buildings. So we liked the business for a couple of reasons. The first point is we believe we can replicate this business model and expand it further in our other distribution companies, namely the ones in Colombia that we own. In addition to that, as I mentioned earlier, it does have very attractive annuity like cash flows and it's actually very similar in the way it runs for UK regulated business. When you think of our UK regulated business, that also is a series of annuities. The main difference though is that those annuities relate to the last mile connection or basically the infrastructure underneath your front lawn, whereas in this case with Enercare, it relates to assets and infrastructure inside your home, but it's the same kind of customer base. It's generally growth related to new home development and relationships that you have with home builders, which is very important. So we felt that it was very similar to that business that we've owned now for ten years and has been the star performer in our overall portfolio. Just performed extremely well for us. The other thing we liked about Enercare is the fact that we see many opportunities to leverage overall the Brookfield franchise geared to drive significant growth in this business. So we own, in different pockets of Brookfield, the very large home building business in our real estate group that we can leverage. We've got utilities in Texas and the PGM whose customers we can leverage. And then we have a very large multi-residential business as well in the US that we can also cross-sell to. So I can't tell you enough how excited we are about the prospects of this business. We think we can deliver here outsize returns on a pretty low risk basis.

Nate: That's interesting. It almost sounds like you're building out a fairly integrated energy and I guess just utility portfolio where you can, if you own some of the utilities and you own some of the natural gas service businesses, you're then building out something just a little bit farther down the road. So call it the last mile type of service offering for customers and it sounds like there's probably a lot of opportunities to add more products and services later on down the road. So it sounds interesting.

Bahir: That's exactly right, Nate.

Nate: So we were talking about funding the growth and you were talking about how you can fund a lot of your growth through internally generated cash flows. But there is some debt in the business and I would like to hear your thoughts on just the balance sheet and metrics you're targeting and what you think the appropriate level of debt in your business is.

Bahir: Sure thing. And again, happy that you brought that up. It's obviously a very important question we get a lot from our investors. So before I jump in and discuss our appropriate leverage levels that we target, I think it's worthwhile to just spend a minute or so just to go through our four guiding principles to capital management at Brookfield Infrastructure. The first is we financed our business primarily at the asset level and on a non-recourse basis back to BIP. So none of our debt down below is cross-collateralize and can impact the whole system should things go wrong there. Second, we structure our debt on an investment grade basis. Next, we put on long duration debt in place. We strive to keep well laddered maturity profiles and really try to limit financial maintenance covenants in our debt packages. And last but not least, we look to match currencies to the underlying assets, cash flows and, when possible, we lock in and fix our debt. And if you look at our debt today, it's about 90% in total. So those are the guiding principles on how we financed our business. So just on our overall leverage or target levels, and since we typically don't raise too much debt at the corporate level, our consolidated leverage metrics tend to be heavily weighted towards the underlying debt metrics that are operating assets in a given period. And again, given that we are owner-operators of diverse infrastructure networks that span multiple sectors and regions, our consolidated metrics can oftentimes be less meaningful than a pure play utility or energy infrastructure company or a telecom operator. So to better understand our overall leverage metrics, we typically guide investors to analyze the various components of our business versus looking at one consolidated metric at the top of the house. And to help with that, we summarize all these metrics by segment in our materials. And so if you go through it, Nate, what you'll notice, for instance, I gave you an indication of how large our utilities business is today. It's quite meaningful. And those are typically, and

I think you would probably know this, is those are typically financed with higher leverage levels than our other platforms as a result of implied capital structures that our regulators allow us to maintain in addition to the fact that these businesses have very robust and secure and predictable cash flows. So these assets are typically financed with 60 to 70% debt de-capitalization or approximately five to six times the EBITDA leverage meant. However, when you look at our other segments being our transportation, energy and communication infrastructure businesses, these are typically financed with much lower leverage levels, generally between 35 to 45% debt recap or somewhere between three and a half to four and a half times that the EBITDA leverage model. So our consolidating metrics at the top of the house is just the sum of all the underlying businesses down below and just may not mean much by if you look at it in isolation as it will just be primarily driven by the composition of the portfolio at a given point in time. So regardless of what our consolidated results are, I would note that it's just important for investors to remember that we finance each business on a standalone basis based on investment grade metrics and, therefore, we put on debt against each business that's been appropriately sized for that specific business.

Nate: That's really helpful to hear and I really appreciate that because I don't know If you've listened to some or any of the previous episodes, but I used to cover NRG energy and that company was always really interesting to me from an investment perspective because they, too, had really high consolidated debt levels and leverage levels. But if you looked at the individual businesses on a standalone basis, it made a whole lot more sense. Unfortunately for them, they had an activist investor come in and say, "Well, I don't care. Let's just clean this up." I'm grossly oversimplifying what happened but how important is it for infrastructure companies like Brookfield to maintain investment grade status?

Bahir: [00:53:01] So, Nate, it's very important. We have a BBB+ stable credit rating at the BIP corporate level. They're ensuring we have a fortress-like balance sheet and ample liquidity at all times is the number one goal we have as an organization. We think having a BBB+ corporate rating is important as it provides a strong access to capital and ensures that our capital structure is stable. So I should note here, the reason we have this strong rating is because, first, and I mentioned this before, we have a small amount of debt at the corporate level and because of that, in addition to the fact that we have stable and growing cash flows that are being distributed up to us from our businesses, it just ensures that we have a very, very robust coverage ratio at the corporate level today that I think it exceeds twenty times or so, and that really provides rating agencies and our fixed income investors with a lot of comfort on our debt metrics. Second, our business is diversified by sector and region. I think that's important. Third, we have a stable cash flow that are underpinned by strong regulatory frameworks and long term take or pay contracts with investment grade counterparties. We always seek to maintain ample liquidity in the system with a well laddered debt maturity profile. And then just lastly, from a risk management perspective, we fix pretty much all our debts and hedge as much as possible our FFO debt denominated in foreign currencies. So, Nate, that's the story at the corporate level. At the operating company level, we think it's also important to finance the business based on investment grade metrics because it ensures at first that we received a covenant light package that doesn't have many cash straps associated with it. And also we wouldn't have to deal with default covenants and also provides us with ample room on distribution lockup type levels. Second, it greatly reduces the likelihood of having to potentially de-leverage the business in the future so that reduces future unknown liquidity events that you could otherwise get. And then lastly, your sub-investment grade debt, as you probably note, is typically volatile in terms of price and liquidity and so being investment grade ensure that we receive strong bids now than we're raising debt in the business and when we come to refinance this debt later on upon maturity or when we exit our various investments.

Nate: So Brookfield's a global company. Could you talk about just some of the key considerations whenever you're going into a new country? When you're thinking about buying an asset portfolio or just an individual asset in a new country, what are some of those key considerations?

Bahir: Yeah. So what I would say here is that we're looking for countries that have, at least, say, twenty-five to thirty years track record of exhibiting strong rule of law, countries that have respect for foreign capital or for human life; ones that have a strong judiciary system that's separate than government, countries with strong banking systems and they must just be countries that are large enough from an investable universe perspective. So I would say, Nate, those are some of the factors that we analyze before we even make a decision if we should go in and invest in a particular country. And so once we make that decision, we'll take our time to initially secure an office in the country, typically in the capital city. We would staff it with a few local professionals who have relationships in the country just so we understand how business gets done there. And then it may be several years or more from that point in time to when we make actually an investment in the country. And it may even take us a decade or more before we invest in significant scale in that country. So I would say, in conclusion, those are the marks where I'd say we're always just very cautious, slow and deliberate when it comes to investing in newer countries.

Nate: I completely understand. That makes sense. I guess the next question though is just are there countries right now that you think are attractive that you're not in and that you would like to be in?

Bahir: So we are, today, I would say in pretty much all the right countries and markets that we have deemed to be the best places around the world to put our money and our investors' money in or to work in. A country that we've been in for a while where we haven't made any investments in is in Mexico. And we've had an office there for about ten years that we've been tracking closely. That's just been a market that's been tough to invest in on a value basis in the past. So in that one, we're hopeful that in the not too distant future we can actually make some investments there and have a bigger presence because it is an attractive market today. Our presence in India is relatively small but just given the opportunity set there, given the growth profile of the country, I believe that it's only a matter of time, we think, to probably have a larger presence there. And then we're spending a lot of time right now assessing other countries in Asia through the broader Brookfield franchise. We've got offices in Hong Kong, Shanghai, Seoul, Tokyo, Singapore, just to name a few. And they're probably a good maybe five years away from investing in these countries in any kind of scale, but we're just spending a lot of time right now to understand and learn how business gets conducted there from an infrastructure perspective.

Nate: So are there any headwinds or tailwinds that we haven't discussed that you'd like to highlight?

Bahir: I would say we have a number of tailwinds that will probably aid our results going into 2019. If you look at our 2018 results, they were impacted by the drag of having cash on the balance sheet. We've sold a very large business earlier in the year at a premium valuation and while a fantastic accomplishment for our business, the loss of income associated with the sale and just the timing of when you would re-deploy those significant proceeds into newer investments, has acted as a bit of a drag to our current results. In addition to that, our current results have also been impacted by a Brazilian Real that was very weak this year leading up to the election, which has already done, as I mentioned before, and also due to lower rates on our Pound Sterling and Australian Dollar hedging contracts. So going into 2019, we've more than replaced the FFO gap in our results that was created by the asset sale that I just noted. We closed on or secured about $1.7 billion of new investments that are expected to generate a going in FFO yield of over 10% starting in 2019. And then in addition, our hedge rates on our foreign exchange contracts are 5% than in 2018. And we expect that Brazilian Real to perform better than in 2018 now that the uncertainty behind the election is behind it and since the government or the country elected a very pro-business president and we've already seen the currency rally by 15% since the election. And so those two factors, in addition to a positive outlook from pretty much each one of our nine operating groups, should see us increase our FFO per unit by, say, almost 20% next year, starting in the second half of the year.

Nate: Wow. That's impressive. So just knowing what you know about your business and assuming you weren't a shareholder, what do you think is the most important thing you need to get comfortable with or learn more about before making an investment in Brookfield? I should say BIP rather than Brookfield because there's more than one.

Bahir: No, that's fine. So when we're out speaking to new accounts that are doing work on BIP for the first time, we're often asked questions on our emerging market exposure and our thought process with respect to why it is that we invest in emerging markets. Most infrastructure investors in North America, that we at least meet with, are used to investing in North American-centric businesses and sometimes feel like buying BIP is taken on a little more risk. So we do spend a lot of time telling our story on emerging markets, were very passionate about it and really we look to explain our thesis behind it to get investors comfortable with it. I'm happy you asked the question. So usually an indication of an appropriate time to invest in any market is when capital becomes scarce. So in order to make this strategy work though, you need to be flexible and you need to have the presence on the ground in these markets to invest in a number of sectors and regions. And so that's very, very key because capital flows tend to be very, very fluid and things do tend to change a lot in these regions. And so we've historically invested in emerging markets like Chile and Brazil because Brookfield has a long history in those markets. We generally like the benefits of diversification that comes from investing in stable and developed economies as well as having exposure to these higher growth emerging markets. In the past few years, we've often heard the viewpoints from investors that exposure in emerging markets is a negative, but for us that suggests that the time is right to invest. So aside from the current favorable investment conditions that we believed that exists there, that we're focused on investing in emerging markets because they provide us with certain unique, I'd called dynamics that are rarely available if you were solely focused on investing in developed countries. I'll walk you through a few examples here, Nate. Well, first, it lets you invest in scale. We're always looking for investments that have large enough scale and a lot of those are not always available in developed markets in all our targeted sectors. For instance, there is no toll road platforms that scale in the US, in Canada or the UK, like the ones we have in South America. That ability to invest in the motorway sector in North America and the UK is just so limited because the regulatory frameworks and the political will is just not yet in place there to introduce the private sector into the road infrastructure sector to the same degree as it exists in South America. So aside from scale, emerging markets also provide us with lots of opportunities to grow our businesses organically. Investing in markets with high growth and expanding infrastructure provide us tremendous follow on capital investment opportunities. As I noted earlier in my remarks to you, a big value driver for our business is the organic growth that we have because it provides predictable, higher return sources of capital investment. And much of our organic growth comes from our business in South America that we're exposed to. And lastly, investing in emerging markets allow us to invest in a contrarian nature. By their nature, they're more volatile so it enables us to invest in a contrarian basis whenever there's any geopolitical events that may occur. What we find there is investors oftentimes paint all emerging markets with the same brush; capital from the large money sensors and whether it's in New York or Europe can oftentimes take a risk-on, risk-off approach to investing and really don't distinguish one emerging market from another. And so there tends to be more windows of opportunities here to invest on a contrarian basis than say in a developed or a more established market. Since I'd say we're long term investors, we're not really concerned about periods of short term volatility and generally see them as excellent entry points for investments. But what I would say though is, and what I would point out to your listeners, is that investing in emerging markets is not simple. It requires extensive experience and significant operating capabilities and boots on the ground, so to speak. And it's that all stuff that Brookfield's built over decades and decades of being in the region. You look at our organization, you could trace back our involvement in South America for over a hundred years now. And over time, we've invested in all facets of the economy. Operating businesses in emerging markets does, in some cases, involve greater attention to safety, environment, labor, financing issues, amongst other things, each of which we believe we're well equipped to properly manage. Just lastly, further challenge to investing in emerging markets is managing the risk related to changes in foreign exchange rates as these are somewhat beyond our control. In many instances, hedging can be very costly there and so we must rely on imperfect hedges to reduce our exposure. So on that, the first layer of risk management is always borrowing on a non-recourse basis in the local currency. If you look at the capital markets in Chile, Brazil and Colombia, they're fairly deep and we're also able to draw upon our international banking relationships to supplement local markets when needed. And then the second layer of protection is investing in businesses with either US dollar regulated return frameworks such as our Colombian distribution business or in businesses with inflation indexation, such as our toll roads and our transmission businesses.

Nate: You said a couple of things there that really resonated with me. The first is that you said your long term investors and prime management team to think of themselves as -- and for you to highlight the fact that your long term investors is really encouraging and really positive in my opinion. And so I appreciate that. And then also just the fact that you're getting involved, you're seriously looking at the investment proposition when things are, again, volatile and you take that contrarian perspective. And I would imagine that as you get more involved in energy infrastructure, you might have more investors who used to say things about emerging markets and now they might say, well, why are you buying so many things in energy and infrastructure? Well, this has been a great interview and, yeah, thank you, Bahir. It's been a pleasure.

Bahir: Thanks a lot, Nate. Appreciate it. Take care.

Nate: Yeah, you too. Bye now.

Bahir: Bye.