



ATCO Ltd.

Second Quarter 2019 Results Conference Call Transcript

Date: Thursday, July 25, 2019

Time: 9:30 AM MT

Speakers:

Dennis DeChamplain - Executive Vice President and Chief Financial Officer

Myles Dougan - Senior Manager, Investor Relations

Conference Call Participants:

Maurice Choy RBC Capital Markets (Canada) – Research Analyst

Linda Ezergailis TD Securities, Inc. – Managing Director



Operator:

Welcome to the ATCO Ltd. Second Quarter 2019 Results Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Mr. Myles Dougan, Senior Manager of Investor Relations. Please go ahead, Mr. Dougan.

Myles Dougan:

Thank you, Carl. Good morning, everyone. We're pleased you could join us for our Second Quarter 2019 Conference Call. With me today is Executive Vice President and Chief Financial Officer, Dennis DeChamplain and Assistant Controller, John Jeffrey. Dennis will begin today with some opening comments on our financial results and recent Company developments. Following his prepared remarks, we will take questions from the investment community. Please note that replay of the conference call and a transcript will be available on our website at atco.com and can be found in the Investors section under the heading Events and Presentations.

I'd like to remind you that all our remarks today will include forward-looking statements that are subject to important risks and uncertainties. For more information on these risks and uncertainties, please see the reports filed by ATCO with Canadian Securities regulators. And finally, I'd also like to point out that during this presentation, we may refer to certain non-GAAP measures such as adjusted earnings, adjusted earnings per share, funds generated by operations and capital investment. These measures do not have any standardized meaning under IFRS, and as a result they may not be comparable to similar measures presented in other entities.

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Now, I'll turn the call over to Dennis for his opening remarks.

Dennis DeChamplain:

Thanks, Myles, and good morning, everybody. Thanks very much for joining us today on our Second Quarter 2019 Conference Call. ATCO announced higher adjusted earnings in the second quarter of 2019 of \$78 million or \$0.68 per share compared to \$61 million or \$0.53 per share in the second quarter of 2018.

Higher second quarter of 2019 earnings were recorded in Structures & Logistics, Neltume Ports and Canadian Utilities. Structures & Logistics earnings were stronger due to incremental earnings from the LNG Canada Workforce Accommodation Project and higher rental activity. Neltume Ports contributed another solid \$4 million dollars in earnings driven by copper cargo volumes. In Canadian Utilities, higher earnings were mainly due to favourable electricity and natural gas transmission regulatory decisions, rate-based growth, further cost efficiencies, and lower income taxes.

In the Structures & Logistics business, modular structures successfully commenced both manufacturing and site construction work for the LNG Canada Workforce Accommodation Project. Manufacturing is planned to continue through 2020, and the first modules are on schedule to be installed by the end of July 2019.

In the United States, our contract for the installation, rental, and service of a 1,500-person camp for fire disaster relief in Chico, California will continue to see the ongoing value of rental, maintenance, and service earnings from the initial date of occupation in April of 2019 through to early 2020.

Modular structures have secured multiple contracts for approximately \$27 million with the Government of British Columbia's Supportive Housing Program in response to the growing issue of homelessness in communities. The first project was successfully handed over in June 2019. The remaining two projects are expected to be complete in the second half of 2019. Modular structures were also awarded two contracts for a total of \$14 million to supply a modular product for Marriott hotels in California. These projects are expected to be completed in the second half of 2019.



In the second half of 2019, modular structures' business activity will continue to ramp up due to the execution of secured contract work such as LNG Canada, ongoing rental earnings from Chico, California, PMC contracts in the U.S. and Canada, and orders with major mining companies in Western Australia.

Higher earnings in Canadian Utilities came from the favorable impact of electricity and natural gas transmission regulatory decisions, ongoing growth in the regulated rate base, further cost efficiencies and lower income taxes. Canadian Utilities also entered into definitive agreements subject to customary closing conditions to sell non-regulated electricity assets. The Canadian fossil fuel-based electricity generation portfolio sale is for aggregate proceeds of approximately \$835 million and will occur as three separate transactions. The first transaction closed in July 2019, and the remaining two transactions are expected to close in the second half of 2019.

The Alberta PowerLine Ltd. partnership sale is for total proceeds of \$300 million, including the assumption of approximately \$1.4 billion of APL debt and is expected to close in the fourth quarter of 2019.

All in all, we continue to advance ATCO strategy to diversify into new industries and product lines in Structures & Logistics, add earnings from our strategic investment in Neltume Ports, continue disciplined capital recycling in Canadian Utilities, and explore new opportunities to expand our global presence.

That concludes my prepared remarks. I will now turn the call back over to Myles.

Myles Dougan:

Thank you, Dennis, and I'll turn the call over now to the conference coordinator for your questions.

Operator:

Certainly. We will now begin the question-and-answer session. In the interest of time, we ask you to limit yourself to two questions. If you have additional questions, you're welcome to rejoin the queue. To rejoin the queue, you may press star and one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before



pressing any keys. To withdraw from the question queue, please press star, then two. Webcast participants are welcome to click on the submit question tab near the top of the webcast frame and send your question. The ATCO Investor Relations Team will follow up with you by email after the call.

Once again, anyone on the conference call who wishes to ask a question may press star then one at this time.

The first question comes from Linda Ezergailis of TD Securities. Please, go ahead.

Linda Ezergailis:

Morning. Hi. I'm wondering if you could give us an update on some of the initiatives that you're looking at to maximize the value of your real estate footprints. Specifically, might there be some other asset sales? Are you considering developing some of the properties yourself? Can you comment on how that business is evolving?

Dennis DeChamplain:

Thanks, Linda. We are looking at development opportunities of some of the lands that we own in ATCO Investments Ltd., they're the real estate arm of the Company. We'll call them longer term places that we're looking at now, so nothing immediate. In terms of opportunistic asset sales, we have listed ATCO Centre 2 in Calgary, its small outdoor parking lot, and some land in downtown Calgary for sale. We're progressing with that opportunity. That may or may not close in 2019. Those are the two things that are most active in the Company right now.

Linda Ezergailis:

That's helpful. Thank you. And as we look at the tax changes in Alberta, can you comment on your outlook for taxes at the ATCO level?

Dennis DeChamplain:

There wasn't much in terms of additional earnings coming from the decrease in the provincial corporate tax rate. That affects the deferred tax liability that the companies have on their balance sheets. It impacted Canadian Utilities and ATCO picked up 52% of that. But outside of Canadian Utilities, there's nothing material in terms of kind of tax upsides from ATCO's other investment companies.



Operator:

Once again, if you have a question, please press star then one. The next question comes from Maurice Choy of RBC Capital Markets. Please go ahead.

Maurice Choy:

Thank you and good morning. I want to start off with the structures and logistics business. So, now that the federal government has given the TMX project the go-ahead again, can you just discuss what sorts of impact this may have on your S&L business moving forward?

Dennis DeChamplain:

Good morning again, Maurice. With TMX, I'll say if and when, as and when that project advances, there will be requirements for workforce housing. We are in a partnership with indigenous community that's along the route in British Columbia, so we would be putting in a bid for camps along that portion of the route. We'll see when they put shovels in the ground and my understanding is when that happens, there will be an immediate need for workforce housing for those construction crews. We're working on that and even if we weren't successful on supplying for TMX, that goes to help the demand in Western Canada which should help open other opportunities as well.

Maurice Choy:

And I guess, a follow up to that is just your view on margins. I recall in the past that you mentioned that margins were tight but improving. Obviously, congratulations on a few contract wins this quarter. Can you just discuss a little bit about your view of the margins landscape?

Dennis DeChamplain:

I mean, the margins are improving especially on certain types of contracts that we're seeing in Central Canada, the U.S., and the Eastern seaboard of Australia. Of course, with the workforce housing business, the more remote and the more complex, the higher margins are on that side of the business. So, advancements with LNG Canada, TMX, if that comes to fruition, then that should definitely help the business.



Maurice Choy:

Thanks. And then the second part of the question is about Neltume Ports. So, it does seem like everything's going as planned. Any update on deploying the rest of the cash that's sitting in Neltume Ports?

Dennis DeChamplain:

No, not in this quarter. We haven't announced anything. We're continuing to work on a number of development opportunities, greenfield, brownfield and M&A activities. We hope to be able to continue the announcements of deployments of that capital for the next quarter.

Maurice Choy:

Okay. Thank you.

Dennis DeChamplain:

Thanks, Maurice.

Operator:

This concludes the question-and-answer session. I would now like to turn the conference back over to Mr. Myles Dougan for any closing remarks.

Myles Dougan:

Thanks, Operator, and thank you all for participating today. We appreciate your interest in ATCO, and we look forward to speaking with you again. Bye for now.

Operator:

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