



ATCO Ltd.

Year End 2018 Results Conference Call Transcript

Date: Thursday, February 28, 2019

Time: 9:30 AM MT

Speakers:

Dennis DeChamplain - Senior Vice President and Chief Financial Officer

Myles Dougan - Senior Manager, Investor Relations

Conference Call Participants:

Mark Jarvi CIBC Capital Markets– Director, Institutional Equity Research



Operator:

Welcome to the ATCO Ltd. Year End 2018 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, Investor Relations. Please go ahead, Mr. Dougan.

Myles Dougan:

Thank you, Savis. Good morning, everyone. We're pleased you could join us for our Year End 2018 Conference Call.

With me today are Senior Vice President and Chief Financial Officer, Dennis DeChamplain; Senior Financial Officer and Controller, Derek Cook; and Vice President, Finance and Risk, Katie Patrick.

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 a 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 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.

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.



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

Dennis DeChamplain:

Thanks Myles and good morning everyone. Thank you for joining us today on our Year-End 2018 conference call.

ATCO recorded higher adjusted earnings in 2018 of \$355 million, or \$3.10 per share, compared to \$335 million, or \$2.93 per share, in 2017. ATCO had higher fourth quarter 2018 adjusted earnings of \$108 million, or \$0.94 per share, compared to \$96 million, or \$0.84 per share, in the fourth quarter of 2017. Higher fourth quarter 2018 earnings were due to strong results in all business segments. Strong 2018 earnings were driven by our non-regulated businesses, mainly due to improved profit margins and demand for Structures and Logistics' workforce housing products, strong results in electricity generation, Alberta PowerLine, commercial real estate, and earnings from a new investment in Neltume Ports, a leading port operator and developer in South America.

Structures and Logistics recorded \$9 million in higher earnings in 2018. This was mainly due to higher space rental activity, higher trade sales particularly in permanent modular construction, and higher lodging occupancy at the B.C. Hydro Site C workforce housing camp.

Structures and Logistics had a busy 2018. In December, we entered into a joint venture with Bird Construction to design, engineer and construct a 4,500-person workforce accommodation centre. The facility will be built to house workers involved in the construction of LNG Canada's natural gas liquefaction and export facility.

Design and engineering for the project is currently underway, with construction expected to begin in the spring of 2019. The project is one of the largest accommodation facilities ever built in Canada.

We also signed a contract for workforce housing and operational support services for three camps in the Haisla's traditional territory to support the construction of the Coastal GasLink Pipeline in British Columbia. The three camps are proposed to commence operations and phases starting in March 2019, and continue until August of 2022.



Further afield, we acquired a majority ownership position in ATCO Espaciomovil, a leading modular building manufacturer in Mexico. With a 182,000 square foot manufacturing plant and approximately 1,300 modular rental units in operation, ATCO is now the largest manufacturer of modular products in the Mexican market, with the second largest fleet of modular rental assets in the country. The fleet is currently 80 per cent utilized on existing contracts. ATCO Espaciomovil serves a diverse customer base across Mexico and Central America.

In Chile, we constructed a new 118,000 square foot modular structures manufacturing facility in Santiago. This new manufacturing facility further solidifies our foothold in South America. Construction on this facility was completed in the second quarter of 2018.

In Australia, we opened a custom-built 330,000 square foot manufacturing facility near the city of Brisbane on the eastern seaboard, which will complement an existing manufacturing plant in the city of Perth in Western Australia. The new facility in Brisbane will meet the growing demand in traditional markets, such as mining and construction, and also serve emerging permanent modular construction markets within the health, education, justice and commercial sectors.

In 2018, we completed several trade sales for permanent modular construction projects, including classrooms for the State of Victoria, Australia, and community centres, hotels and apartment complexes in North America. We will continue to pursue these diversification opportunities going forward.

In the Frontec business, we secured two new Operating and Services maintenance contracts in 2018.

So all together, Structures and Logistics had a very busy year. It expanded its presence globally and set the stage for continued growth going forward.

At our Canadian Utilities subsidiary, strong 2018 earnings were mainly due to improved results in electricity generation and higher earnings in Alberta PowerLine. I won't spend much time on this part of ATCO's investments, as Canadian Utilities held a separate conference call discussing its strong 2018 results. I invite you to review that information.



ATCO continues to diversify its holdings in 2018, with a \$450 million investment in Neltume Ports, a leading port operator and developer in South America. Neltume operates 16 port facilities and three port operations services businesses, primarily located in Chile and Uruguay. In 2018, Neltume Ports' contribution to ATCO's adjusted earnings was \$4 million. This represents ATCO's share of Neltume's adjusted earnings from the closing date of the investment on September 12 to September 31, 2018.

Neltume was also busy on the acquisition front in the fourth quarter of 2018. It acquired an additional 21 per cent ownership in the TGU Port, bringing its total ownership up to 54 per cent. This will allow Neltume to exercise operational control and therefore strengthen its port operator role in the concession. TGU, located in Uruguay, is a bulk port that stores and transfers mainly soy, wheat and corn.

We expect Neltume Ports to remain active, increasing its ownership positions, pursuing expansion opportunities at existing ports and looking for additional acquisition opportunities.

Adjusted earnings for ATCO's Corporate segment in 2018 were \$7 million higher than 2017. These higher earnings were mainly at ATCO Investments, which is our commercial real estate business that holds investments for sale, lease or development. In 2018, ATCO Investments sold four properties in the commercial real estate portfolio for a total of \$13 million in adjusted earnings.

On January 10, 2019, ATCO declared a first quarter dividend for 2019 of 40.48 cents per share. ATCO's annual dividend per share has increased for 26 consecutive years and we're very proud of our track record of annual dividend increases.

Overall, ATCO had a very busy year as we continue to transform into a globally diversified infrastructure holding company. We generated higher earnings, declared higher dividends and continued on our transformation path.

Going forward, ATCO is focused on investments that put us at the forefront of global trends. We strive to deliver growth within our holding company portfolio, with a focus on select opportunities in the essential global services of: housing, logistics and transportation, agriculture, water, real estate, and



energy & energy infrastructure. In the years ahead, we will continue to grow and expand our business in the select global markets of Australia, Latin America, the United States and Canada.

That concludes my opening prepared remarks and I'll turn the call back over to Myles.

Myles Dougan:

Thank you, Dennis. I will now turn the call over to the conference coordinator for 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 are welcome to re-join the queue. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw yourself 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 type their 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.

Our first question comes from Mark Jarvi with CIBC Capital Markets. Please go ahead.

Mark Jarvi:

Hi, good morning Dennis. I wanted to follow up on the comment about continued investments at Neltume. Maybe you can just talk a little bit about the pace. I assume, given the cash that went into the business when you bought in, it should be all self-funding. Are you seeing new opportunities to accelerate capital deployment in that business?

Dennis DeChamplain:

Hi Mark. Yes, approximately half of our \$450 million purchase price is sitting in cash at Neltume to fund these growth opportunities. Right now, we don't anticipate having to do anymore injections for growth activity as Neltume executes its growth plans, so we believe that that investment will be self-funding for the next few years.



Mark Jarvi:

Okay.

Dennis DeChamplain:

Any large or out of the ordinary acquisition that isn't on the table right now could alter those plans in the future, but that's the way we see it right now.

Mark Jarvi:

Could you just give a sense of that incremental ownership, like what kind of dollar values, or what types of transaction, how big are those?

Dennis DeChamplain:

Well, that was kind of a relatively smaller one, that was about US\$10 million.

Mark Jarvi:

Okay. Then, obviously, you guys have been pretty active on Structures and Logistics, and you've talked about the continued expansion and build out manufacturing capabilities and increased footprint in Mexico. Do you take a pause now and just continue to execute on those new opportunities in new markets or do you feel like there's more capital to be deployed to continue to grow that business?

Dennis DeChamplain:

We do need to make sure we integrate those new acquisitions successfully. Mexico, we're working hard to bring them into the fold. That being said, there are other markets that we continue to look at. We're very busy in Eastern Canada, and that's a potential where we could look to expand. So, there is additional capital available for those types of tuck-in acquisitions at Structures.

Mark Jarvi:

Okay. Thank you.



Operator:

Once again, if you have a question, please press star then one. We will pause for a moment for any questioners.

There appear to be no more questions. This concludes the question and answer session. I would like to turn the conference back over to Mr. Myles Dougan for any closing remarks.

Myles Dougan:

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

Operator:

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