



# **ATCO Ltd. First Quarter 2019 Results Conference Call Transcript**

**Date:** Thursday, April 25, 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:**

**Linda Ezergailis** TD Securities, Inc. – Managing Director

**Mark Jarvi** CIBC Capital Markets – Director, Institutional Equity Research

**Robert Kwan** RBC Capital Markets (Canada) – Managing Director



**Operator:**

Welcome to the ATCO First Quarter 2019 Results Conference Call and Webcast. As a reminder, all participants are in a 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, Claudia. Good morning everyone. We're pleased you could join us for our First Quarter 2019 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](http://atco.com) and can be found in the Investors section under the heading Events and Presentations.

I'd like to remind you all 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 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 very much for joining us today on our First Quarter 2019 Conference Call.

ATCO announced higher adjusted earnings in the first quarter of 2019 of \$112 million, or \$0.98 per share, compared to \$99 million, or \$0.87 per share, in the first quarter of 2018. Higher first quarter 2019 earnings were recorded in each of Structures and Logistics, Canadian Utilities, and Neltume Ports.

Structures and Logistics' stronger earnings benefited from the commencement of work on the LNG Canada Workforce Accommodation Project. In Canadian Utilities, increased Alberta power market prices and ongoing growth in the regulated rate base were major factors in higher earnings this quarter, and Neltume Ports had positive earnings contributions from our equity investment from last year's third quarter acquisition. I won't say too much about Canadian Utilities' results, as there is a separate conference call to discuss its quarterly results. Canadian Utilities did have a good quarter, though, and contributed \$105 million in the first quarter of 2019, or \$9 million in earnings growth compared to the first quarter last year.

Higher Structures and Logistics' earnings were mainly due to higher space rental earnings, commencement of work on the LNG Canada Workforce Accommodation contract, and higher lodging occupancy at the B.C. Hydro Site C workforce housing camp.

The Structures and Logistics business was also busy winning new contracts this quarter. In the United States, Modular Structures was awarded a \$70 million contract for the installation and rental of a 1,500-person camp for fire disaster relief in Chico, California. Frontec was also awarded a \$20 million contract for this camp's maintenance, including food services, housekeeping, and janitorial services.

In Australia, Modular Structures was awarded a \$50 million contract for the relocation of 800 rooms from the Wheatstone LNG Project in North Western Australia, and here in Canada, Modular Structures and Frontec were awarded contracts with a total value of \$15 million for the Site C Clean Energy Project in British Columbia. Modular Structures will provide an additional 150 workforce housing accommodation rooms on rental contract, and Frontec will provide operations and maintenance services for these rooms on a 42-month contract.



Neltume Ports was also busy with another acquisition this quarter. In February, Neltume Ports acquired an additional 15% ownership in the TPA Port, bringing its total ownership to 50%. This will allow Neltume Ports to exercise operational control and therefore strengthen its port operator role in the concession. TPA is a container port located in northern Chile with a diversified cargo mix mainly servicing Bolivian trade. ATCO paid \$9 million for its equity share of this investment.

All in all, ATCO had a very good first quarter of 2019. We achieved earnings growth in Structures and Logistics, Canadian Utilities, and Neltume Ports. We also added several new contracts in diversified geographies, which will bolster the future earnings potential of the Structures and Logistics business.

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:**

Thank you. 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 rejoin 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 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 is from Linda Ezergailis with TD Securities. Please go ahead.

**Linda Ezergailis:**

Thank you. Good morning. I was wondering if you could maybe give us an update on more broadly the dynamics at play in your Neltume Ports investment. You made a \$9 million equity infusion in Q1. My understanding is the remaining performance-driven contingent consideration is about \$6 million. How



are you looking at future investments going forward? Do you expect it to be beyond what I just cited as largely self-funding, or do you think there's a chance of additional investments on top of that over the next couple of years?

**Dennis DeChamplain:**

Good morning, Linda. Thanks for your question. When we purchased Neltume, the \$450 million for the 40% interest, approximately half of the cash sat on Neltume's balance sheet to fund future acquisitions. Those acquisitions are coming through increased ownership in existing ports, which we've had a couple of acquisitions now; brownfield expansions and new ports, so we are continuing to look at all three of those avenues for growth, and I think in the immediate near term we believe that Neltume has that cash on hand in order to help fund those acquisitions, so there'll be, I think, limited and additional equity investments coming from ATCO down to Neltume. They should be self-funded for the foreseeable future, pending any major acquisition or brownfield expansion.

**Linda Ezergailis:**

The cadence of dividend growth at this point that you expect, or distributions from Neltume; how-- what's the outlook for that?

**Dennis DeChamplain:**

We hadn't really expected much in the way of dividends in 2019, given kind of the growth space that they are on. In the first quarter, we did receive a \$12 million dividend, and that represents the full year's dividends coming from Neltume. I was hoping that would just be a quarterly dividend and we'd get \$48 million, but that's—based on their forecast, \$12 million is the annual dividend, which we received in Q1, and that's reflective of the earnings and cash flow requirements of the company.

**Linda Ezergailis:**

Thank you, and maybe as a follow-up if we can switch back to Alberta, there was a recent provincial election. Can you comment on what sort of impact, if any, it might have on your franchise at the ATCO level; specifically Structures and Logistics potentially, or do you really just see yourself continuing on with no bearing on your strategic outlook for that region?



**Dennis DeChamplain:**

We're, bullish is probably not the right word, but we are optimistic on Alberta prospects. We are starting to see a tightening of the labour market here in Alberta. The pipeliners are—TransCanada, I think, is busy doing expansions and debottlenecking on their network. Our factory for structures here in Calgary is pretty much plum full with respect to the work that we're getting from LNG Canada, so we are starting to see work pick up. If TMX were to go ahead, there are additional camps that are required and it'll be interesting how those camps get sourced going forward, but in terms of new major investment that gets sanctioned here in Alberta, that would result in kind of near-term material projects for Structures, we're not really focused on that.

As you see by our contract wins in this past quarter, we are really focused and starting to deliver additional foundations for the base business in Modular and Frontec.

We're continuing to rebuild the base business of the Company and to capitalize on, call it the major workforce housing work like LNG Canada.

**Linda Ezergailis:**

That's helpful context. Thank you.

**Dennis DeChamplain:**

Thanks, Linda.

**Operator:**

Our next question is from Robert Kwan with RBC Capital markets. Please go ahead, sir.

**Robert Kwan:**

Good morning. I guess just to continue on for Structures and Logistics, a number of the projects you highlighted that you've won are really leveraging off of previous work or contracts that you have. I'm just wondering, do you see a number of other opportunities, and then just generally with what you've won, can you talk about directionally the margins on those contracts relative to the existing ones in the portfolio?



**Dennis DeChamplain:**

Yes, some of them were contract extensions. The new contract for the disaster relief in Chico, California, that was new. Wheatstone, the relocation of the 800 rooms, we won that on a competitive tender. Although we had originally supplied the Wheatstone LNG, I'll say that is new work. We did have Site C, which is a continuation or expansion I think you're referring to, and a new contract for Teck, so we are seeing new growth outside of existing extensions.

That being said, a lot of the contracts are smaller in nature. Margins are improving marginally, but they're still tight. Notice our rental rates are increasing due to construction activity in eastern Central Canada and eastern Australia where construction activity is going. So we feel good about our progress on rebuilding that company's base business. As you know, in 2017 our earnings were \$6 million. Last year they were \$15 million, and we're happy with that trajectory and that trajectory continuing.

**Robert Kwan:**

Okay, and just coming back to the margins, you noted a slight or modest improvement. Is that due to just fewer competitive pressures from others, or is that the nature of the mix of what you're doing, i.e. higher-end accommodations versus what you would have been working on previously?

**Dennis DeChamplain:**

Yes. It's, I'll say, more to the latter on the mix, but it's also with respect to the geographies that we're working in. It's tight, still tight here in Alberta, but when you look at some of the other busier areas, whether it's the Permian Basin down in Texas and eastern Canada and Australia, that's—that heightened activity is helping to drive slightly increased margins.

**Robert Kwan:**

Okay. If I can just finish with Neltume, coming back to the expansion, Dennis, you mentioned that when you did the deal about half the cash was for future acquisitions and expansions, and I know it was a small number for this one, but why did you actually kick in the \$9 million, and I guess kind of the bigger question is, as Neltume continues to expand, should we continue to expect you to kick in cash?



**Dennis DeChamplain:**

This opportunity for the TPA kind of expansion was factored into the original deal, so there wasn't—and I'm looking at my friends here for help—there wasn't additional cash that was injected by ATCO. It was taken out of the contingent purchase price that we had when we struck the deal.

**Robert Kwan:**

Oh, okay. Sorry, so it was originally contemplated in that \$450 million, but to be clear, when I look at the statements it looks like you actually put cash out the door, though, so it was just cash out the door on the original purchase price?

**Myles Dougan:**

That's right, Robert. It was considered in the original deal, but there was the additional cash for this transaction. If it was closed, then we would pay for our portion of that ownership.

**Robert Kwan:**

Okay, and then going forward we should expect, obviously, once you burn through it that's a different situation, but future expansion's going to be funded out of the cash being held at the Neltume level?

**Dennis DeChamplain:**

That's correct.

**Robert Kwan:**

Okay. Perfect. Thank you.

**Operator:**

Once again, if you have a question, please press star, then one.

Our next question is from Mark Jarvi with CIBC Capital markets. Please go ahead.

**Mark Jarvi:**

Hi. I just wanted to go back to the Neltume increased ownership. Maybe you could just outline whether or not that's initiated from the seller or from you guys for Neltume in terms of pursuing increased ownership, and how does the follow-on investments compare in terms of either returns or cost to acquire versus sort of your initial purchase into Neltume?





**Dennis DeChamplain:**

We prefer to be in the controlling operatorship position, so the increase in ownership is a desire for ourselves. The seller obviously has got to be motivated to reduce their percentage, so it's—like minds, we were able to come to a deal. I don't know the specifics on this multiple or transaction compared to the overall investment that we had in Neltume. Again, being comprised of the 16 ports in Neltume, there's, I'll call it additional value and diversification, each port will be kind of viewed separately. So, I'll say that this purchase as it was contemplated when we did the deal, it was fully baked into the purchase price. Going forward, we'll have to take a look at each opportunity on its merits.

**Mark Jarvi:**

Okay. Thanks.

**Dennis DeChamplain:**

Thanks, Mark.

**Operator:**

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, Claudia, and thank you all for participating this morning. 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.