



# **ATCO Ltd.**

## **Third Quarter 2019 Results Conference Call Transcript**

**Date:** Thursday, October 31, 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 – Research Analyst

**Mark Jarvi** CIBC Capital Markets, Inc. – Managing Director

**Operator:**

Welcome to the ATCO Limited Third 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, one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, zero.

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

**Myles Dougan:**

Thank you, Savis. Good morning, everyone.

We're pleased you could join us for our third quarter 2019 conference call. With me today are Executive Vice President and Chief Financial Officer, Dennis DeChamplain, Senior Vice President and Controller, Derek Cook, and Vice President, Finance, Treasury, and Risk, Colin Jackson.

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 Investor 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, 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 very much for joining us today on our third quarter 2019 conference call.

ATCO announced adjusted earnings in the third quarter of 2019 of \$74 million compared to \$87 million in the third quarter of 2018. Lower third quarter earnings recorded in Canadian Utilities and ATCO investments were partially offset by higher earnings in Structures and Logistics and Neltume Ports.

Structures and Logistics achieved \$10 million in higher earnings in the third quarter of 2019 compared to last year's third quarter. Higher adjusted earnings were mainly due to the continued work on the LNG Canada Cedar Valley Lodge project, higher space rental activity in Canada and higher workforce housing trade sale activity in the United States and Australia.

In Canada, manufacturing and site construction work for the LNG Canada project is well in hand and our Calgary manufacturing facility is operating at near full capacity, so the project is going well and is progressing on schedule.

In the United States, we completed a \$7 million contract to supply modular product for our Marriott Hotel situated near San Francisco, California in the third quarter. A second \$7 million contract to supply modular product for a Marriott Hotel in Oakland, California is expected to be complete in early 2020.

In Australia, manufacturing commenced on a 400-room two-storey accommodation village in Karratha, Western Australia. The total contract value is \$22 million with the final handover expected in April 2020.

Our Modular Structures team also completed the final handover of a 600-person camp in Western Australia this quarter. The total contract value is \$27 million with ongoing rental earnings from the initial date of occupation in August of 2019 through to early 2021.

Neltume Ports also contributed \$2 million in higher earnings in the third quarter and was awarded a 25-year copper concentrate loading contract at one of its Chilean ports. The contract extends the concession agreement at the port for another 15 years to 2041.



These higher third quarter 2019 earnings in Structures and Logistics and Neltume Ports were more than offset by lower earnings in Canadian Utilities. Lower earnings were mainly due to favourable earnings realized in the third quarter of 2018 associated with the balancing pool's termination of the Battle River Unit 5 PPA.

ATCO Corporate and Other also recorded \$12 million in lower third quarter 2019 earnings, mainly due to lower income from ATCO Investments, as ATCO Investments completed two commercial real estate transactions in the third quarter of 2018. Our objective is to unlock the hidden value of these investments over time, and we will continue to explore how to maximize value for our shareowners from this business.

This quarter, Canadian Utilities finalized the sale of its entire 2,100-megawatt Canadian fossil fuel-based electricity generation portfolio in a series of transactions and received \$821 million of aggregate proceeds on the sale. This resulted in ATCO recognizing a gain on sale of \$73 million, which is after-tax and non-controlling interests, and is excluded from adjusted earnings.

The financial strength was confirmed in the third quarter as Dominion Bond Rating service affirmed their 'A' range corporate credit rating and stable outlook for ATCO, Canadian Utilities, and CU, Inc. S&P Global Ratings affirmed their 'A-' credit rating and stable outlook for our companies as well.

Overall, it was an active quarter at ATCO throughout North America, Latin America, and Australia. We made progress on a diverse range of modular structures projects, extended the contract length on one of the concessions at Neltume Ports, and we completed the sale of Canadian Utilities' Canadian fossil fuel-based electricity generation portfolio.

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

**Myles Dougan:**

Thank you, Dennis. We'll turn the call over to our conference coordinator for questions.

**Operator:**

Thank you, sir. 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 join the question queue, you may press star, 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, two.

Webcast participants are welcomed 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 e-mail after the call.

Once again, anyone on the conference call who wishes to ask a question may press star, one at this time. We will pause for a moment as callers join the queue.

Our first question comes from Maurice Choy with RBC Capital Markets. Please go ahead.

**Maurice Choy:**

Thank you and good morning. My first question is on Structures and Logistics. The margins this quarter seem to be higher than some of the previous periods. I wonder if you could just discuss what is the origins of that, whether it's the contracts or types of contracts that you record revenues this quarter or is it an indication of the whole contract and periods moving forward? Alongside that, if you could just provide your activity levels over the next few periods.

**Dennis DeChamplain:**

Good morning, Maurice. In the MD&A we show the average rental rates from our space rentals business and our workforce housing business. In there you can see that the rental rates from our space rentals are up 14% year-over-year, and our workforce housing is up 20% year-over-year. A lot of that, you know, the space rentals increase is due to increased activities in central Canada and British Columbia. In terms of workforce housing, we have higher rental rates coming out of Australia with some of the large mining projects and recently installed workforce housing in British Columbia.

We've definitely seen the uptick on the revenue side. We're having, I'll say, good cost containment, so that will result in increased margins through the business.

As we trend back a few years when the business made \$6 million in the full-year, then we are able to double that and, again, have a healthy increase year-over-year from those levels, if you just take a look



at the base run of the business, we've increased that base business through increased diversification in our markets and with our customers, trying to diversify away from the commodity-based oil and gas resource sector. You're seeing the benefits of that strategy result in kind of that increased base business.

I'm not going to give you our forecasts over the next number of quarters, but we're proceeding nicely with that emphasis on our strategy of diversification, both in markets and in products. So, we're continuing on that trend. Year-over-year our base business in the third quarter is very healthy and we hope to continue that in the future.

**Maurice Choy:**

Any insight on your order book or potential contracts to come?

**Dennis DeChamplain:**

We've got a very healthy lead list. It's a little bit lower at the same time last year only because LNG Canada was on our lead list and we were able to put the puck in the net on that project. But I'll go back to the lead list being well diversified by region, if you take a look at Mexico, Australia, United States, British Columbia, Alberta. We're well diversified by geography and by contract type. Natural resources are still, say, the majority, but we do have Government contract leads, housing and other such new customers from our historic past.

**Maurice Choy:**

Great. Just moving on to Neltume Ports, I gather that Neltume Ports continued to have a high level of cash and underlying business for your investments, but I suppose with you already invested in the business for just over a year now; has it always been your investment thesis that we continue to be at this state of activity or did you wish that there was more investments from the investee?

**Dennis DeChamplain:**

Well, that cash is still sitting on Neltume's balance sheet, even with the extension of our copper concentrate contract and new capital loading facilities required. That will be self-funded by that port and will not draw on that circa \$200 million sitting on Neltume's balance sheet. We do want that cash to be put to work. We expect that cash to be put to work through greenfield, brownfield, M&A activities. It



hasn't happened yet, but I know they have a lot of irons in the fire and we're looking to deploy that capital and grow that business.

**Maurice Choy:**

I guess if you sit this time next year, would you be disappointed if all \$200 million is not already invested?

**Dennis DeChamplain:**

All \$200 million? I would expect some to be deployed. Right now the results we're seeing from Neltume are achieving our base case that we based our purchase on, so we're still happy with the investment. But going back to what I said earlier, we still expect to deploy that cash and are actively seeking projects. Take a look at what's happening with world trade and the geopolitical environment; it's kind of understandable there's a little bit more uncertainty right now, so there may be a little bit of cautious optimism as we proceed to expand our Ports business.

**Maurice Choy:**

Great. Thank you very much.

**Dennis DeChamplain:**

Thanks, Maurice.

**Operator:**

Once again, to ask a question, please press star, one. Our next question comes from Mark Jarvi with CIBC Capital Markets. Please go ahead.

**Mark Jarvi:**

Thanks. Just maybe continuing along some questions on Neltume. Do you anticipate the civil unrest in Chile to have any impact on the near-term results?

**Dennis DeChamplain:**

Good morning, Mark. Thanks for the question. No, we do not expect any major impacts from those civil unrests. I mean, that's a very sad and unfortunate situation. We at Neltume have kind of prided ourselves on our labour relations. There were general strikes called. We were able to stay open at the



vast majority of our ports. Our workers were safe. We didn't lose any cargo, incoming cargo or outgoing cargo as a result of the unrest. There were curfews, so we did scale back on some overnight shifts. But because we were open and other ports weren't, we were actually able to pick up a small incremental number of ships for unloading, which will help the business.

But, no material impact in the short-term.

**Mark Jarvi:**

Okay. That's good to hear. Then you did put an NCIB in place for this year and obviously you've got a long track record of growing the dividend. Any updated views on capital allocation, if you struggle to find new investments; how you guys think about maybe just, again, excess capital towards either the buyback or dividend increases over the next couple of years?

**Dennis DeChamplain:**

Yes. We haven't executed on NCIB in any material shape whatsoever. Our dividend views are unchanged. We look to grow them based on the existing payouts, the long-term growth of the business, so we'll be taking a look at that when we set our 2020 dividend recommendation to the Board.

In terms of ATCO, we want to limit the leverage on ATCO's balance sheet. We still have some credit facilities and debt outstanding from the Neltume purchase. We're continuing to look for acquisitions, but as we fully digest the Neltume purchase we'll be heading out looking for more — and we are looking for more — executing on future growth projects down the road.

**Mark Jarvi:**

Okay. Thanks. I'll leave it there.

**Dennis DeChamplain:**

Thank you.

**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, Savis, 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.