



ATCO Ltd.

Year End 2019 Results

Conference Call Transcript

Date: Thursday, February 27, 2020

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Speakers: **Dennis DeChamplain** - Executive Vice President and Chief Financial Officer
Myles Dougan - Director, Investor Relations & External Reporting

Conference Call Participants:

Linda Ezergailis TD Securities, Inc. – Managing Director

Maurice Choy RBC Capital Markets – Research Analyst

Mark Jarvi CIBC Capital Markets – Research Analyst

**Operator:**

Thank you for standing by. This is the conference operator. Welcome to the ATCO Limited Year End 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, Director of Investor Relations. Please go ahead, Mr. Dougan.

Myles Dougan:

Thank you, and hello everyone.

We're pleased you could join us for our Fourth Quarter 2019 Conference Call. With me today is 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 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 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 fourth quarter 2019 conference call.

ATCO achieved adjusted earnings of \$365 million in 2019, or \$10 million higher than 2018. ATCO's ability to grow its adjusted earnings during a period of slowing global economic activity and significant political economic and social change, is a testament to ATCO's diversified portfolio and resiliency.

Higher 2019 earnings were partially due to incremental earnings from ATCO Structures, which was busy working on the LNG Canada Cedar Valley Lodge contract. ATCO Structures has also successfully repositioned its business to capture new opportunities and customers.

ATCO Structures continue to grow its global space rental and workforce housing rental earnings in 2019 by adding to the existing rental fleet. They also opened a new space rental branch office in Colorado to supplement the established workforce housing business and growth in permanent modular construction in the United States.

They have diversified their customer base in the last few years by expanding into permanent modular construction of multi-family housing, schools, hospitals and other institutional buildings. In 2019, permanent modular construction of hotels was added to the expanding list of diverse structures they can manufacture. They completed the manufacturing supply for a Marriott Fairfield Inn located near Oakland, California. Manufacturing work for a second Marriott hotel in California is already underway and will be completed in 2020.

These diversification opportunities supplement the ongoing workforce housing projects we are well known for and continue providing for our global natural resource customers.

ATCO Frontec generated higher earnings in 2019 from additional North American camp services and maintenance contract, which include the Tuscan Ridge contract in Chico, California and a contract expansion at the BC Hydro Site C Two Rivers Lodge in Northern British Columbia.



ATCO Frontec also continues to be busy with various facility operation and maintenance contracts for government and military organizations. In 2019, Frontec secured a contract extension with NATO in Bosnia, and won a contract rebid with NATO in Kosovo.

2019 was also ATCO's first full year of ownership in Neltume Ports. Neltume recorded adjusted earnings of \$15 million in 2019, \$11 million higher than in 2018.

Neltume completed another acquisition in 2019. In February of that year, they acquired an additional 15% ownership in the Terminal Puerto de Arica Port, bringing the total ownership to 50%. This acquisition gave Neltume operational control of the port and strengthened its port operator role in the concession.

More recently, in January 2020, Neltume entered into a 50/50 joint venture partnership with Terminal Zarate to build and operate a roll-on roll-off automobile terminal in Mobile, Alabama. This port is in construction now and is expected to be in operation in 2021.

Their partner, Terminal Zarate, operates the largest roll-on roll-off automobile terminal in Latin America. This investment opportunity in Alabama allows Neltume to work with an experienced and respected partner, while growing and diversifying by both geography and product type.

Neltume Ports has been a steady earnings performer for us so far in our short ownership tenure. In 2019, there were some headwinds to increasing cargo volumes because of global trade disputes, but we see these issues as temporary and believe our investment thesis will hold true in the medium and long term.

On the energy side, Canadian Utilities continues to be a steady earnings contributor for ATCO in 2019. Maintaining stable year-over-year earnings was quite an achievement, considering that 2018 adjusted earnings included \$18 million associated with the Alberta Balancing Pool's termination of the Battle River unit 5 PPA. Canadian Utilities also recorded \$6 million in earnings in 2018, due to an early energization incentive at Alberta Power Line for completing construction ahead of schedule. Due to all the great work of Canadian Utilities employees, they closed that earnings gap in 2019.

In January, we declared a first quarter 2020 dividend with a 7.5% increase over the dividends paid in 2019. ATCO has increased its common share dividends every year for 27 consecutive years. We're



very proud of that track record of dividend increases. ATCO's dividend payout ratio continues to be lower than the average of Canadian utility peer payout ratios. That lower payout ratio gave ATCO some additional room to grow the dividend while maintaining its financial strength. Going forward, we will continue to work to create additional value and create the right environment for future dividend increases.

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

Myles Dougan:

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

Our first question comes from Linda Ezergailis with TD Securities. Please go ahead.

Linda Ezergailis:

Thank you. I'm wondering if you could give us some context, beyond just some of the trade dispute headwinds you saw emerging last year related to your port's investment, are you seeing any impact of the coronavirus on your ports business and might you see some prospectively? How are you adjusting your outlook to reflect this development?

Dennis DeChamplain:

Thanks, Linda. Good morning. There's been very limited impact that we've seen so far in our ports business. It's a diversified 16 ports that we have, but there's been no material impact yet as a result of the coronavirus.

Linda Ezergailis:

Okay, and that would be your expectation going forward or? I guess, it's a dynamic situation.

Dennis DeChamplain:

Yes. Who's to know? I mean, Europe went up in flames in just a few days. So, we'll see. We have our pandemic plans, Neltume has their pandemic plans, and we're continuing to operate, and right now, our operations are not materially impacted.

Linda Ezergailis:

Well, hopefully, continue not to be.

Dennis DeChamplain:

Yes.

Linda Ezergailis:

Yes. So furthermore, on your Neltume business, very interesting toehold into Alabama and a different type of roll-on roll-off terminal. Can you talk about what sort of additional opportunities there might be in North America and what the cadence of those might be? And then can you comment on the roll-on roll-off, is that expected to be a significant new line of business for Neltume or is this more of maybe an opportunistic partnership?

Dennis DeChamplain:

Thanks for the question. In terms of North America, and you talked about cadence, I mean, the deal flow at Neltume is, I'll say, relatively high. They're continuing to examine opportunities in North America and South America as well. They're kind of like the home base. So, including ports in Canada, we're looking at opportunities there.

The cadence, North America, in terms of partnerships—or sorry, is a roll-on roll-off kind of a new element that we want to get into. I mean, Terminal Zarate, they operate the largest roll-on roll-off in Latin America. So, to be able to partner with them kind of helps to potentially open doors for us with future roll-on roll-offs as the business progresses.

Cadence, when we made our investment in Neltume there was a sizable amount of that purchase price was on Neltume's balance sheet to finance growth. They have eroded into some of that cash. They still have a very healthy cash balance to fund their growth efforts. So, right now there hasn't been a cash call, so to speak, to fund new growth. They do have their growth funds and finances in place to continue to execute on a lot of these transactions that we've been seeing from Neltume.

Linda Ezergailis:

That's helpful context, thanks. I'll jump back in the queue.

Operator:

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

Maurice Choy:

Thanks, and good morning. The first question that I want to speak on is on Structures & Logistics. Obviously, a fairly strong close to the year. I wonder if firstly you could give us a little bit of insight as to the progress on the project related to Coastal GasLink, if any recent headlines and activities have caused your work there to change and if there's any earnings or cash flow impact into 2020.

Dennis DeChamplain:

Good morning. Thanks Maurice. We've got a couple of projects up in Northern BC. We have, I'll say, completed the project for Coastal GasLink, and those camps are operating, so to speak, to the extent that our element is done — I can't remember if that was a sale or a rental for those Coastal GasLink projects.

In terms of our other main project up in Northern BC for LNG Canada, that project is progressing, let's say, ahead of schedule, and I think that's what helped to give Structures maybe a bigger boost than where we were tracking throughout the year. The manufacturing has been going, let's say, exceedingly well to date, and that allowed us probably a little bit more of kind of an earnings uplift than



what people were expecting. And that is unimpacted by any of the social unrest associated with Coastal GasLink.

Maurice Choy:

I suppose as a follow-up, are you expecting 2020 Structures and Logistics to be as strong as this year or should we have considered that some of the 2020 results were pushed to 2019?

Dennis DeChamplain:

Yes. There's a little bit of kind of an advancement from those 2020 earnings into 2019. We continue to secure new contracts in our ATCO Structures business, particularly in Australia and in the United States, and we have a strong lead list. We do expect 2020 to be a similar type of year for ATCO Structures in 2019, and perhaps even better, if we can secure some of those additional leads.

Maurice Choy:

Great. And my final question, just to finish off and perhaps a follow-up from the conference call that you just had. It's about dividend and dividend payout ratio. As you mentioned, there is some room in the ATCO payout ratio to rise a little bit further, and hence the higher percentage of increase for 2020. What do you see as an appropriate payout ratio for an infrastructure company like ATCO? And to that end, who are the kind of peers that you think of when you set your mark?

Dennis DeChamplain:

Yes. Right now, given the heavy weighting of ATCO's portfolio in Canadian utilities, I think ATCO probably around 80% regulated earnings through its investment in CU, that is where we're kind of — those were my comments of compared to utility peers and compared to conglomerates what we're looking at. Where we're looking for growth at ATCO, our dividend income in ATCO is kind of far in excess of its dividend outflow. So we are retaining cash in order to help the financial strength and fund growth prospects at ATCO.

I think, right now, let's say, we're comfortable with the payout ratio in ATCO in the 50%—the 50s, I'll call them, for ATCO.

Maurice Choy:

Great. Thank you very much.

**Dennis DeChamplain:**

Thanks Maurice.

Operator:

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

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

Mark Jarvi:

Thanks. Just wanted to clarify a little bit on the commentary on the bit of a pull forward in Structures & Logistics and just looking at the timing on some of the contracts in California, Australia. Is there an expectation then even just for 2020 that the front half will be stronger than the back half, or do you guys have line of sight on potentially backfilling the back half of 2020 to kind of smooth out the earnings growth at Structures & Logistics?

Dennis DeChamplain:

Yes. Good question Mark. I don't have a quarterly forecast in front of me for Structures. We were slow out of the gate in 2019 in Structures, kind of back-end weighted into Q3 and Q4, especially as LNG Canada got rolling. So, we'll continue to see LNG Canada rolling through Q1 and Q2.

Given my earlier comments, we expect a relatively similar year in ATCO Structures, maybe a little bit better if we can get some of the new leads. The new leads would fill the back-end of the year and you'll see kind of more of a levelized, a much more levelized earnings in 2020 than we saw in 2019.

Mark Jarvi:

Okay. And then going back to the comments about opportunities in the port business in terminals. Interestingly, there's one here in North America through Neltume. But what about ATCO itself taking maybe outside of Neltume, whether maybe partner yourself with Neltume? Or what's the options for ATCO to put more of its own capital to work maybe not directly through Neltume in that segment?

**Dennis DeChamplain:**

Yes, I mean, if it comes to ports, I think the opportunities really come through Neltume. I mean, we do have provisions. If Ultramar, our partner, does not want to proceed, we could proceed, and vice versa, if they want to proceed and us not to proceed, then they could go for it kind of outside of Neltume. We haven't faced any of those issues yet, but the potential is there for either of us to go it alone should we choose.

Mark Jarvi:

Okay. Thanks.

Dennis DeChamplain:

That being said, we're probably not up the curve yet on our port operatorship expertise given our short run now.

Mark Jarvi:

Okay.

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, Anastasia, 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.