

# **ATCO Ltd. (ACLLF) Q2 2024 Earnings Call Transcript**

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**Body**

ATCO Ltd. (ACLLF)

Q2 2024 Earnings Conference Call

August 2, 2024, 11:00 AM ET

Company Participants

Colin Jackson - SVP, Finance, Treasury & Sustainability

Katie Patrick - EVP, Chief Financial & Investment Officer

Conference Call Participants

Maurice Choy - RBC Capital Markets

Rob Hope - Scotiabank

Presentation

Colin Jackson

Thank you. Good morning, everyone. We're pleased you could join us for the ATCO's Second Quarter 2024 Conference Call. With me today is Executive Vice President and Chief Financial and Investment Officer, Katie Patrick.

Before we move into today's remarks, I would like to take a moment to acknowledge the numerous traditional territories and homelands, how much our global facilities are located. Today, we are speaking to you from our ATCO Park head office in Calgary, which is located in the Treaty7 region.

This is the ancestral territory of the Blackfoot Confederacy, comprised of the Siksika, Piikani, Tsuut'ina Nation, and the Stoney Nakoda, which include the Chiniki, Bearspaw, Wesley Stoney First Nations. I also want to recognize, the city of Calgary is also home to the Metis Nation of Alberta, Districts 5 and 6. During our second quarter we proudly celebrated National Indigenous History month, a time to honor the stories, achievements, and the resilience of indigenous peoples. We carry this message beyond the month of June, respect the diverse language, history, ceremonies, and cultures of the indigenous peoples who call these areas home.

In terms of today's call, you will hear from Katie who will deliver comments on our financial results and recent company developments. Following today's remarks, we will take questions from the investment community. Please note that a replay of the conference call, a short supplementary presentation and today's transcript will be available on our website at atco.com following the call. These materials can be found on the Investors section under the heading, Events & Presentations.

Today's remarks will include forward-looking statements that are subject to important risks and uncertainties. For more information on these risks and uncertainties, please refer to our filings with the Canadian securities regulators.

During this presentation, we may refer to certain non-GAAP or other financial measures, such as total segment measures, adjusted earnings, adjusted earnings per share and capital investment. Beginning this quarter we have also provided adjusted earnings before interest, taxes, depreciation and amortization for adjusted EBITDA for ATCO Structures and Aqua EnPower. These non GAAP measures do not have any standardized meaning under IFRS, and as a result they may not be comparable to similar measures presented by other entities.

And now I'll turn the call over to Katie for her opening remarks.

Katie Patrick

Thanks, Colin, and good morning, everyone. Thank you all very much for joining us today.

I'm pleased to report that, ATCO achieved adjusted earnings of $96 million in the second quarter of this year. This is $9 million or 10% higher than the second quarter of last year. This $9 million of growth came primarily from the strong performance of our Structures and Alberta Utility businesses. During the quarter and as part of our ongoing drive for operational efficiencies, we took steps to streamline our cost structure. We took a hard look at our corporate overheads and business units to ensure our teams are fit-for-purpose and aligned to our renewed growth ambitions. Heading into the second half of the year, our teams are refreshed, nimble and laser-focused on executing our project pipeline.

Moving to key Utilities, where I won't go into too much detail, as we spoke about their performance on this morning's CU call. I want to reiterate that, we continue to focus on delivering growth in 2024 and beyond. Our confidence to deliver growth within the utilities was reinforced in early May, as we increased our Canadian rate base compound annual growth rate to 3.5% to 4.3% through 2026. We continue to see very strong fundamentals in our core Alberta markets and opportunities to deliver even higher rate base growth over the long-term.

In June, we announced our decision to move forward with Phase 1 of the Atlas Carbon Storage Hub alongside our partner Shell. This multiphase open access carbon storage hub is a major milestone in our commitment to advancing products and services, which may contribute positively to society's goal of reducing emissions. This is the first step in ATCO Power's work to create a full value chain for hydrogen development from production and carbon abatement to transport and export. The Atlas Carbon Storage Hub is integral to ATCO's long term strategy and sustainability aspirations. For those who were unable to make this morning's CU call, the replay will be available on our website shortly.

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ATCO Structures continued to deliver strong results with adjusted earnings of $30 million in the quarter or 15% higher than the prior year. Structures continues to deliver growth for the expansion of our base business and the optimization of our fleet with major projects being a supplement to these earnings. Continued investment in our base business, particularly in our space rentals business has allowed us to expand both our footprint of operating locations and our customer base. This has increased the number of units we have on rent, while improving our average rental rate by 10%.

In Q2, Structures announced the strategic acquisition of NRB Modular Solutions. NRB is a leading manufacturer of modular multifamily residential, industrial, education and commercial buildings. Structures will integrate NRB into an existing modular business operation, allowing us to service an extended market with additional manufacturing capacity in Ontario and British Columbia. This transaction increases our capacity in growing markets, complementing our strategy for continued fleet expansion.

Further, the acquisition provides ATCO access to a large existing customer base and skilled employees, which NRB has built in these markets over decades of offers. Structures' proven history as a leading innovator and highly competitive global modular manufacturer will create invaluable synergies for NRB's future performance. The purchase price of $40 million represents the book value of NRB and includes the normalized working capital. Synergies will be created through ATCO's existing manufacturing expertise, enhanced sales from our retail branch network of growing fleet assets and our proven ability to improve operational processes.

Operational improvements can include strategic sourcing, automation, process improvements and economies of scale. We expect the transaction to close in the third quarter of 2024 and we're excited for the opportunity to maximize the value and synergies that NRB brings to our Structures business as a market leader in modular construction across Canada. We have a proven track record in our Structures business of successfully integrating acquisitions into the AGCO portfolio.

Modular manufacturing is a core competitive advantage that Structures have expanded over decades of continuous improvement. A recent example of this is our strategic expansion into the residential housing sector through our Triple M Housing acquisition in 2023. The Residential Housing segment has been a valuable strategic addition to our business growth. Triple M Housing continues to deliver strong results year-over-year and has developed a large pipeline of new opportunities and it continues to provide synergy and value positioning us for future growth. Complementary additions like NRB will work constantly to build our industry-leading expertise across all of our modular platforms.

As we look to the second half of 2024, we continue to focus on delivering sustainable earnings, driven by the growth of our base business of Structures. While we anticipate a small dip in activity in Q3, we have line of sight to new projects in Australia that are expected to drive growth in Q4. We remain confident that there continues to be a solid pipeline of projects in Australia, Canada and the United States, that we believe will drive additional opportunities and support further growth for structures in 2024 and beyond.

Overall, ACTO had a great second quarter and first half of 2024. Across our portfolio of investments, we continue to focus on executing our growth plans. We believe that the unique combination of investments in our portfolio and the work we've done to expand the earnings from these investments create the foundation to support our growth aspirations going forward. We look forward to keeping you updated, as we progress on our growth initiatives throughout the year.

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

Colin Jackson

Thank you, Katie. In the interest of time, we ask that you limit yourself to two questions. If you have additional questions, you're welcome to rejoin the queue. I will now turn it over to the conference coordinator for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Maurice Choy of RBC Capital Markets. Please go ahead.

Maurice Choy

Thanks and good morning everyone. Just first question is on the NRB acquisition. Thanks for the color and logic behind it. Can you just discuss what the cost is for this transaction and your expectations in terms of annual earnings contribution from this deal?

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Katie Patrick

Yes. Thanks, Maurice. As mentioned, it's a $40 million acquisition, which includes the normalized working capital level. And as I mentioned, that is at the low value of the current assets held on the balance of predictors. We're not going to provide at this moment a forecast for the future earnings contribution. But as we said, we think there are very strong synergies as well as the strategic expansion into the new markets, that we think should help drive growth, next year into our earnings base.

Maurice Choy

Got it. And maybe just besides the slight difference between this deal and Triple M's businesses, can you just elaborate on how you approach this deal and should we kind of use the Triple M contributions in terms of the growth and the upside from the deal and using that as a blueprint for NRB?

Katie Patrick

Yes. I would view the two acquisitions actually quite differently. Triple M, while we did have residential manufacturing prior really leverage us into a new business segment. And, we've largely kept the two businesses separate in the sense that, they had a bit of a distinct dealer networking way that they operate. NRB is quite a different proposition in that. We are in this business. This gives us new locations, strong set of new employees as we said. So, this is very much our core business. It's a bit of a different, as I said, value proposition strategy, in terms of creating operational efficiencies and synergies as well as things in the standard footprint.

Maurice Choy

If I can move on to another deal that I think it was disclosed on the CU side. The ATCO Energy that was sold from CU to ATCO parent. Again, similar question, what's the logic here cost and earnings contribution, if you don't mind?

Katie Patrick

Yes. So, when we took a look at our portfolio of businesses, this really had a greater strategic alignment to the ATCO level in terms of its focus on the customer, on the home. And, we just made the decision to move ATCO Energy from key utilities to ATCO Limited. Obviously, that was done with full independent evaluation, especially evaluating that transfer. In terms of earnings contribution, I think we've seen a good growth trajectory in that business. It has grown in the Alberta marketplace.

We continue to see opportunities for growth there. And we obviously have some different product lines that we hope will continue to drive our new growth as we go forward. We don't specifically segment or disclose that segment, at this time, but we may think to do that moving forward.

Maurice Choy

Would it be quite similar to the net book value that you have in the CU balance sheet, in terms of what assets and liabilities are for sale about $100 million?

Katie Patrick

Yes. It's in a similar range.

Maurice Choy

Got it. And just to sweep up on this one, I suppose philosophically speaking, CU was always used to be the energy and energy infrastructure side of ATCO's essential services pillar. With ATCO Energy kind of moving to the ATCO side, it feels like, there is a little bit of a change in that separation between CU and what's CU within the accrual family. Can you just highlight where that has changed or is this more of a normally one-off?

Katie Patrick

Yes. It's a good question. I think we view ATCO Energy, which we collect called a group of businesses that fall under that at the retail. That also includes their Blue Flame Kitchen, that's also managed under the same banner. And our Fresh Bites acquisition that we did last year. And really, that to us is a retail-based, customer-oriented, customer-facing play. As we look to grow other businesses in there, particularly, some of the products and service offerings there. There's a bit of a diversion away from just direct physical energy portfolio. So, I think, it's not a clear plan. It's just the peers energy services provider.

Operator

[Operator Instructions] And our next question will come from Rob Hope with Scotiabank. Please go ahead.

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Rob Hope

Good morning everyone. Just on the Structures business with another kind of roll up MA on the manufacturing side, how do you think about your footprint and the potential for further roll-ups whether it be in your core geographies or in new geographies?

Katie Patrick

Yes. I think, Rob, thanks for the question. This acquisition, as I said on my prepared remarks, I think that really positions us well, particularly in Eastern Canada, where we do have a branch network, but we did not previously have any manufacturing capacity. We're really excited about adding that on to the footprint. We obviously have a strong position across Canada, and this really all fits back. If you think about our other geographies, we do have a good, obviously, another very strong business in Australia.

I think we could continue to look for opportunities for inorganic growth there. As we continue to build in the U.S., I think we will look both for organic and inorganic opportunities there. But, we've been relatively successful growing that business from an organic perspective in the United States. So I think we will continue to be on track and look for continued opportunities in Canada and Australia in particular for acquisition growth.

Rob Hope

Okay. And then, maybe more broadly, with the kind of volatility in the global workforce housing, and I guess a smaller size relative to the global space rentals. How do you prioritize capital between the two businesses? And could we continue to see a more-focused global space rentals versus workforce?

Katie Patrick

Yes. We continue to focus on driving that, as you've talked about often that base business of earnings that we have that comes mostly from our Space Rentals business, but also from our smaller housing project. So when we talk about our non-based business, that's really from those large projects that we've seen in the past that will come not necessarily in a very predictable manner. It can be strong benefit to our earnings when they do come. In terms of ongoing capital allocation, the priority, as we say is continuing to build our fleet and continuing to build that base business frame. You'll see some of the announcements we've made this quarter around some other projects that we're looking at. Those wouldn't be, mega workforce housing projects. We would continue -- we would see those part of our base business and they are very strong contributors to earnings, with a solid pipeline that we continue to have in that area. We are -- we will target continue to build the Space Rentals business. But as the opportunities come, look to, execute on those workforce housing opportunities as well.

Robe Hope

Thanks you.

Operator

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

Colin Jackson

Thank you, Andrea. Thank you all for participating today. We appreciate your interest in ATCO, and look forward to speaking with you again soon.

Operator

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

**Load-Date:** August 2, 2024

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