ATCO Ltd.: Is it a Buy on the Dip?

Description

ATCO Ltd. (TSX:ACO.X) reported earnings on February 25. Shares fell 3.6% on the day. Its 2015 adjusted earnings were 21.7% lower than 2014's. On a per-share basis, they were 21.3% lower. Additionally, ATCO's revenues declined by 9.3% year over year. Yet the utility is among the top five companies in Canada with the longest dividend-growth streak.

Strong dividend-growth record

ATCO should peak the interests of dividend investors because it has a track record of increasing its dividend for 23 consecutive years. Its recent dividend-per-share growth was nothing short of amazing.

From 2013 to present, it has increased its dividend from an annual payout of $0.75 to $1.14 per share, an income growth of 52% (or an average growth rate of 15% per year) for shareholders who bought in 2013. Yet its payout ratio remains sustainable below 45% with room for future dividend growth.

The business

ATCO owns 53% of **Canadian Utilities Limited**. ATCO has assets of about $19 billion. Its business operations include the following:

- Structures and logistics: workforce housing, innovative modular facilities, construction, site support services, and logistics and operations management.
- Electricity: power generation, distributed generation, electricity distribution, and transmission and infrastructure development.
- Pipelines and liquids: natural gas transmission, distribution and infrastructure development, natural gas liquids storage and processing, and industrial water solutions.
- Retail energy: electricity and natural gas retail sales.

In 2015, 57% of its adjusted earnings came from its electricity operations (44% regulated and 13% non-regulated), 34% came from its pipelines and liquids operations (31% regulated and 3% non-regulated), and 9% came from its structures and logistics operations.

Year over year, ATCO's electricity segment and pipelines and liquids segment experienced declined adjusted earnings of 12.3% and 4.7%, respectively. These declines were partly because of multiple regulatory decisions made by the company.

Excluding the regulatory decisions, the electricity segment would have experienced 5.1% adjusted earnings growth due to continued rate-base growth, and the pipelines and liquids segment would have experienced 16% growth due to continued rate-base growth and cost-reduction savings.

The structures and logistics segment experienced the greatest decline in adjusted earnings of almost 60%. Lower earnings were a result of reduced profit margins and lower capital spending in natural resource sectors. Thankfully, this business segment is relatively small compared with the other two.

Between 2016 and 2018, ATCO anticipates capital growth projects of $1.5-2 billion each year, totaling ~$5.3 billion worth of projects. These should help ATCO drive growth.

Conclusion

After the price dip to $36.50, ATCO yields 3.1%. If you buy $5,000 worth of shares, you can expect to receive about $155 in eligible dividends. This income is more favourably taxed than your job's income or interest income in a non-registered account. However, you can also buy it in a TFSA for tax-free income and growth.

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Date
2025/07/21
Date Created
2016/02/26
Author
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