Should You Buy ATCO Ltd. Around Earnings Report Time?

Description

ATCO Ltd. (TSX:ACO.X) is reporting its first-quarter earnings results on Wednesday. Should investors consider its shares today? First, let's take a look at ATCO's business.

The business

From having assets worth about $10 billion in 2010, ATCO has increased its assets to about $19 billion. Most of that growth is due to investing in its utility operations. ATCO also owns 53% of **Canadian Utilities Limited**, and 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.

Last week ATCO announced plans to acquire 50% of Sabinco Soluciones Modulares S.A. from Sitrans Servicios Integrados de Tranportes Ltda. This will help ATCO expand its international modular structures business. Sabinco has an established position in Chile with almost 2,500 space rental and workforce housing units that account for roughly 10% of the Chilean market.

Why does it have a declining share price?

ATCO's share price has been declining since 2014. Specifically, it has fallen 28% from a high of $54 to $39 per share. Its share price has followed its earnings. From 2013 to 2015, ATCO's earnings per share (EPS) fell 13.1% per year on average, equating a total decline of 25%.

Last year ATCO lost most of its earnings in its Structures and Logistics segment, which made up 9% of its earnings. This segment's earnings were $40 million (or 60%) lower than they were in 2014. ATCO's acquisition of Sabinco last week should help spur growth in this segment.

ATCO generates 75% of its earnings from regulated assets in electricity (44% of earnings) and pipelines and liquids (31%). These should help stabilize ATCO's earnings, cash flows, and dividends.

Strong dividend growth

ATCO should attract income investors because it has increased its dividend for 23 consecutive years. Even though it has experienced multi-year earnings decline, its recent dividend-per-share growth was nothing short of amazing due to a low payout ratio and stable cash flows. After declining 13% in 2014, ATCO's cash flow per share has remained pretty much flat, so it's able to continue its dividend-growth journey.

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 is sustainable below 45% (based on its 2015 EPS). So, there's room for future dividend growth.

Conclusion

ATCO trades at a reasonable multiple of 14.7. At about $39 per share, it yields 2.9%, which is a historically high yield for the company.

I'm not encouraging the timing of the market, but around earnings report time, the market can get especially emotional about a company. ATCO could go up or down 5% in one day.

Because ATCO's shares are reasonably priced, Foolish investors can act cautiously by buying half a position now and finish off the position after the earnings report.

That is, if you plan to buy $5,000 worth, you can buy $2,500 worth today and buy more shares after the earnings report.

Pro earnings report, if the price goes up, it means the company is doing better than expected. If not, then you might be able to spend the same $2,500 and buy more shares at a lower price.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ACO.X (ATCO Ltd.)

Category

1. Dividend Stocks

2. Investing

Date
2025/08/15
Date Created
2016/04/26
Author
kayng