



## Why Is ATCO Ltd. Set to Unlock More Value?

### Description

After two years of declining adjusted earnings per share (EPS) from 2014 to 2015, **ATCO Ltd.** ([TSX:ACO.X](#)) is showing signs of turning around. The utility reported its first-quarter results on Wednesday with EPS 55% higher. The shares responded by spiking 5%.

### What contributed to earnings growth?

ATCO reported higher earnings in all three business segments compared to the first quarter of 2015:

- The structures and logistics segment reported about \$7 million growth in adjusted earnings (140% higher)
- The electricity segment reported about \$20 million growth (59% higher)
- The pipelines and liquids segment reported about \$14 million growth (33% higher)

On top of business-wide cost-reduction initiatives, other factors helped each business segment achieve higher earnings.

Higher earnings in the structures and logistics segment were due to higher occupancy levels in the lodging business and higher modular structures project activity.

Capital investment and rate-base growth were main factors contributing to higher earnings in the electricity and pipelines and liquids segments. Additionally, in the first quarter of 2015, these segments' regulated earnings were reduced by a one-time impact from multiple regulatory decisions.

In January, ATCO sold its share of the Edmonton Ethane Extraction Plant. These non-core assets resulted in proceeds of \$21 million.

### Dividend-growth track record

ATCO has increased its dividend for 23 consecutive years. Even though it has experienced a multi-year earnings decline, from 2012 to now, it has hiked its dividend by 14.6% per year on average. This is thanks to the company maintaining a conservative payout ratio.

Most recently, ATCO raised its dividend by 15% in March, so its payout ratio for the first quarter is about 27%. So, the utility has room to continue its dividend-growth streak next year.

### **Future growth**

ATCO plans to invest roughly \$5.3 billion in regulated utilities and contracted capital growth projects from 2016 to 2018. Specifically, \$2.1 billion is planned for regulated utilities, and \$2 billion is planned to upgrade the natural gas transmission and distribution networks in Alberta and Australia.

Further, this month ATCO announced plans to acquire 50% of Sabinco Soluciones Modulares S.A. from Sitrans Servicios Integrados de Transportes Ltda. 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. This acquisition will help contribute to ATCO's growth in its international modular structures business.

### **Conclusion**

Even after rising 5%, ATCO is only trading at about 15.2 times earnings. This is a reasonable valuation for a utility which has been increasing its dividend by 15% per year in the past few years. With \$5.3 billion of investments planned through 2018 in projects with stable returns, ATCO is set to unlock more value in the next few years. At \$40 per share, investors can get a 2.8% yield to start.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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