

Action Note

Equity Research

January 15, 2021

Alternative Energy

Atlantic Power Corp.

(AT-N, ATP-T) US\$2.96 | C\$2.67

Moving to TENDER; We See a Low Likelihood of a Superior Offer

Sean Steuart, CFA

416 308 3399
sean.steuart@tdsecurities.com

John Mould, CFA

416 944 6832
john.mould@tdsecurities.com

Event

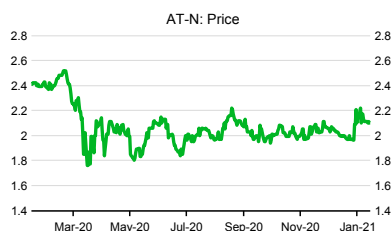
Last night, Atlantic Power Corp. (AT-N, ATP-T) announced that it has entered into a definitive agreement to be acquired by I Squared Capital for US\$3.03/share in cash. I Squared is a Miami-based global infrastructure investment manager with \$24bln of AUM. Atlantic expects the transaction will close in Q2/21.

Impact: POSITIVE

- The offer of US\$3.03/share represents a 48% premium to AT's 30-day VWAP.** The transaction also includes cash payments for Atlantic's preferred shares (C \$22/share), conversion of Atlantic's convertible debentures into common shares, and the redemption of its medium-term notes.
- At the offer price, the implied valuation is 6.4x TEV/EBITDA based on our 2022 estimates.** This is less than half the trading multiple for our IPP coverage universe (average of 13.2x). This is arguably warranted by Atlantic's relatively low weighting to renewable capacity (30%) and short weighted average PPA duration (5 years). The company's generation portfolio is 62% weighted to natural gas. We also note that Atlantic's EBITDA is expected to decline beginning in 2023 due to expiring PPAs.
- Completion of the transaction is subject to several stakeholder and regulatory approvals.** These include the approvals of both common and preferred shareholders, as well as approval of trust indenture amendments by convert and medium-term noteholders.
- We have increased our target price to \$3.03 per share (matching I Squared's cash offer) and are moving our recommendation to TENDER.**

TD Investment Conclusion

Atlantic's 60 MW Curtis Palmer hydro facility could attract interest, but we see a low likelihood of a superior proposal. Atlantic last completed a strategic review process in 2014, however, management noted on today's conference call that they have had many discussions with potential bidders in the intervening years. Atlantic's share price has consistently underperformed its IPP peers (down 3% from the end of 2018 to January 14, 2021, vs. an average share price increase of 147% for the rest of our Canadian renewable IPP coverage universe); we believe I Squared's offer is a fair proposal given Atlantic's asset base and PPA expiry profile.



Company Profile

Atlantic Power is a large-scale owner of North American power generation assets, with a current net operating capacity of almost 1,330 MW. The majority of Atlantic's assets are natural gas-fired facilities; the company also owns hydroelectric, biomass, and coal generation.

Recommendation:

TENDER↓

Prior: HOLD

Risk:

HIGH

12-Month Target Price:

US\$3.03↑

Prior: US\$2.50

12-Month Dividend (Est.):

US\$0.00

12-Month Total Return:

2.4%

Market Data (US\$)

Current Price	US\$2.96
52-Week Range	\$1.70 - \$2.54
Mkt Cap (f.d.) (\$mm)	\$264.1
Float Cap (\$mm)	\$251.3
EV (\$mm)	\$1,007.7
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	353,411

Financial Data (US\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	89.2
Float Shares (mm)	84.9
Net Debt (\$mm)	\$540.2
Net Debt/Total Cap	81.9%
Net Debt/EBITDA	3.4x

Estimates (US\$)

Year	2019A	2020E	2021E	2022E
EBITDA (\$mm)	196.1	185.2	184.5	181.5
Dividend	0.00	0.00	0.00	0.00
AFFO/Shr	0.42	0.23	0.20	0.08

AFFO/Shr Quarterly Estimates (US\$)

Year	2019A	2020E	2021E	2022E
Q1	0.07	(0.01)	-	-
Q2	0.19	0.09	-	-
Q3	0.11	0.10	-	-
Q4	0.05	0.05	-	-

Valuations

Year	2019A	2020E	2021E	2022E
Est. EV/EBITDA	5.9x	6.5x	6.4x	6.4x

Supplemental Data

Year	2019A	2020E	2021E	2022E
Capacity (MW)	1,327	1,327	1,327	1,027

EBITDA estimate corresponds to Project Adjusted EBITDA.

All figures in US\$, unless otherwise specified

Details

Although we expect Atlantic's EBITDA to be stable in 2021 and 2022, the company faces declining EBITDA beyond that horizon as additional thermal PPAs begin to expire. The PPAs at the Frederickson and Nipigon gas-fired facilities expire in 2022; these facilities contributed a combined \$39 million of project adjusted EBITDA in 2019 (20% of the total). The Manchief gas fired facility (\$16 million of EBITDA in 2019) is also scheduled to be sold that year following its April 2022 PPA expiry. The PPAs for the Orlando and Chambers facilities expire in 2023 and 2024, respectively (combined \$46 million of EBITDA in 2019). These five facilities contributed approximately \$100 million of project adjusted EBITDA in 2019. With limited visibility regarding potential recontracting outcomes, selling the company removes this risk for shareholders.

The acquisition will be completed via a plan of arrangement. Completion of the transaction is subject to the approval of several stakeholders and regulatory approvals. The transaction is conditional on the approval of two-thirds of the votes cast by both common shareholders and preferred shareholders. It also requires the holders of convertible debentures and medium-term notes to approve certain trust indenture amendments (in each case, votes holding at least two-thirds of the principal amounts voting). Management and Atlantic's Directors have entered into a support agreement to vote their common and preferred shares, if any, in support of the transaction. They have also agreed to vote their convertible debentures and medium-term notes, if any, in support of the required trust indenture amendments. A bondholder representing approximately 66% of the medium-term notes principal and approximately 19% of the principal amount of convertible debentures outstanding has agreed to support the required trust indenture amendments for those securities. The transaction is also subject to typical closing conditions, including court and various regulatory approvals.

The agreement is subject to customary non-solicitation provisions. This includes Atlantic's right to consider and accept unsolicited superior proposals in certain circumstances, subject to a right for I Squared to match such proposals. A termination fee of \$12.5 million will be payable by Atlantic to I Squared should the transaction not close under certain circumstances, including if the arrangement is not completed due to Atlantic accepting an unsolicited superior proposal. A reverse termination fee of \$15 million will be payable by I Squared if the transaction does not close due to an uncured breach of the arrangement agreement by the purchaser (provided Atlantic is not in breach).

Outlook

We have made no changes to our estimates.

Valuation

Atlantic Power is currently trading at 6.4x TEV/EBITDA, which is well below the Canadian IPP TEV / EBITDA average of 13.2x and below its long-term average forward EV/EBITDA of 6.2x.

Justification of Target Price

Our 12-month target price of US\$3.03 is based on the agreement reached with I Squared Capital, under which Atlantic Power will be acquired by I Squared Capital and common shareholders will received US\$3.03 per share in cash.

Key Risks to Target Price

The key risks to our target price include 1) recontracting; 2) counterparty risk; 3) power prices; 4) fuel cost/availability; 5) variable hydrology conditions; 6) regulatory exposure; 7) risk of increased environment regulations; 8) potential for rising interest rates; 9)

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foreign exchange; 10) potential equipment failure; 11) high financial leverage; and 12) completion of the acquisition of Atlantic Power by I Squared Capital.

Exhibit 1. Atlantic Power: Relative Valuation

1. TD IPP COVERAGE UNIVERSE											
A) RENEWABLE CAPACITY WEIGHTING											
Company	Ticker	Trading Currency	Share Price	Yield (%)	Financial Metrics (mm)		Est. EV/EBITDA Ratio (1)				ND/C (%)
					Market Cap	Trailing EV	2019A	2020E	2021E	2022E	
Brookfield Renewable Partners L.P.	BEP-N, BEP.UN-T	USD	\$43.80	2.6%	\$28,097	\$56,264	17.3x	26.2x	22.7x	21.9x	50%
Algonquin Power & Utilities Corp.	AQN-N, T	USD	\$16.82	3.7%	\$10,049	\$16,342	14.7x	17.7x	15.2x	14.5x	49%
Northland Power Inc.	NPI-T	CAD	\$46.59	2.6%	\$9,394	\$17,157	10.8x	12.8x	11.7x	11.6x	78%
TransAlta Renewables Inc.	RNW-T	CAD	\$21.63	4.3%	\$5,771	\$6,970	11.6x	14.4x	14.6x	13.9x	33%
Innergex Renewable Energy Inc.	INE-T	CAD	\$29.90	2.4%	\$5,225	\$9,970	16.1x	22.2x	20.2x	19.5x	80%
Boralex Inc.	BLX-T	CAD	\$52.99	1.2%	\$5,434	\$8,726	11.6x	16.5x	16.0x	15.1x	77%
Renewable IPP Average				2.8%			13.7x	18.3x	16.7x	16.1x	61%
B) THERMAL CAPACITY WEIGHTING											
Capital Power Corp.	CPX-T	CAD	\$36.15	5.7%	\$3,804	\$8,084	7.8x	8.6x	8.6x	8.7x	52%
TransAlta Corp.	TA-T, TAC-N	CAD	\$10.99	1.6%	\$3,013	\$8,184	8.3x	9.1x	9.2x	8.8x	45%
Atlantic Power Corp.	AT-N, ATP-T	USD	\$2.96	N/A	\$264	\$1,008	6.1x	6.3x	5.5x	4.4x	82%
Thermal IPP Average				3.7%			7.4x	8.0x	7.8x	7.3x	60%
Canadian IPP Average				3.0%			11.6x	14.9x	13.7x	13.2x	61%
2. SELECT COMPARABLES											
A) CANADIAN LISTED - RENEWABLE CAPACITY WEIGHTING											
Company	Ticker	Trading Currency	Share Price	Yield (%)	Financial Metrics (mm)		Trailing EV/EBITDA Ratio (2)				ND/C (%)
					Market Cap	Trailing EV	2019A	2020E	2021E	2022E	
Brookfield Renewable Partners L.P.	BEP-N, BEP.UN-T	USD	\$43.80	2.6%	\$28,097	\$56,264	29.0x	26.3x	22.6x	21.6x	50%
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Average				2.8%			20.3x	18.8x	16.6x	16.1x	61%
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Average				3.7%			7.5x	7.9x	7.8x	7.7x	60%
C) U.S. YIELDCOS											
NextEra Energy Partners L.P.	NEP-N	USD	\$80.85	2.9%	\$5,902	\$15,155	13.1x	11.6x	10.7x	9.7x	42%
Atlantica Sustainable Infrastructure plc	AY-O	USD	\$43.76	3.8%	\$4,446	\$10,430	12.7x	12.8x	11.3x	10.8x	78%
Clearway Energy Inc.	CWEN/A-N	USD	\$31.16	4.1%	\$3,622	\$9,689	9.9x	8.7x	8.6x	8.2x	72%
Average				3.6%			11.9x	11.0x	10.2x	9.6x	64%

Notes:

(1) Est. EV/EBITDA multiples reflect the estimated impact of expected capital expenditures on 2020E, 2021E, and 2022E Enterprise Value

(2) Trailing EV/EBITDA multiples for companies outside of TD's coverage universe are based on Bloomberg consensus forecasts

Source: Company reports, Thomson Reuters, Bloomberg, TD Securities Inc. estimates

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Exhibit 2. Atlantic Power: Summary

Financial Metrics	2018A	2019A	2020E	2021E	2022E
Project Adjusted EBITDA (\$mm)	185.1	196.1	185.2	184.5	181.5
AFFO	0.07	0.42	0.23	0.20	0.08
EPS (ex. items)	0.20	0.26	0.28	0.08	0.11
DPS (US\$)	0.00	0.00	0.00	0.00	0.00
Payout Ratio	N/A	N/A	N/A	N/A	N/A

Valuation Parameters	2018A	2019A	2020E	2021E	2022E
EV/EBITDA	6.9x	6.1x	6.3x	5.5x	4.4x
Trailing EV/EBITDA	6.2x	5.9x	6.5x	6.4x	6.4x
AFFO Yield	3.1%	18.0%	7.8%	6.8%	2.7%
P/E	10.7x	9.0x	10.6x	37.8x	27.6x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

Statements of Income (\$mm)	2018A	2019A	2020E	2021E	2022E
Project revenue	282.3	281.6	264.0	251.5	245.8
Project expenses	241.8	213.8	205.2	188.7	185.6
Project other income (expense)	47.7	(21.0)	45.0	5.9	7.6
Net project income	88.2	46.8	103.8	68.7	67.9

Adjusted EBITDA	161.4	171.3	155.7	158.0	157.4
Project Adjusted EBITDA	185.1	196.1	185.2	184.5	181.5
Depreciation	83.7	64.5	62.5	68.6	68.6

Management fees and administration	23.9	23.9	23.0	25.1	25.0
Development Expenses	-	-	-	-	-
Operating earnings (loss)	64.3	22.9	80.8	43.6	42.9

Financial Expenses	52.7	44.0	41.4	26.1	21.9
Taxes (recovery)	0.2	9.8	6.4	3.7	4.4
Other	(25.8)	12.9	(8.9)	-	-
Net income (loss)	37.2	(43.8)	41.9	13.9	16.6

EPS (f.d.)	0.32	(0.39)	0.33	0.08	0.11
EPS (ex. items)	0.20	0.26	0.28	0.08	0.11

Statements of Cash Flow (\$mm)	2018A	2019A	2020E	2021E	2022E
Net income (loss)	37.2	(43.8)	41.9	13.9	16.6
Depreciation and amortization	83.7	64.4	62.5	68.6	68.6
Change in deferred income taxes	(3.6)	4.8	0.8	3.7	4.4
Other operating cash flows	(1.1)	102.8	5.3	36.1	35.6
Changes in non-cash working capital	21.3	16.5	(6.6)	(2.7)	2.2
CF from operating activities	137.5	144.7	103.9	119.5	127.4

Additions to power generating assets	(12.8)	(8.6)	-	-	-
Other investing cash flows	(4.2)	(13.1)	(12.8)	(2.0)	43.2
CF from investing activities	(17.0)	(21.7)	(12.8)	(2.0)	43.2

CF from financing activities	(135.0)	(110.8)	(133.6)	(102.3)	(115.9)
Total cash flow	(14.5)	12.2	(42.5)	15.2	54.7

Balance Sheet (\$mm)	2018A	2019A	2020E	2021E	2022E
Cash	68.3	74.9	37.5	52.7	107.4
Other current assets	68.0	77.8	57.0	60.2	57.6
Power generating assets	549.5	502.1	482.8	423.0	318.1
Other long-term assets	338.7	280.8	254.0	247.1	240.3
	1,024.5	935.6	831.2	783.0	723.3

Short-term debt	68.1	76.4	91.0	91.0	91.0
Other current liabilities	47.8	46.5	40.0	40.5	40.1
Long-term debt	540.7	473.5	380.2	284.5	175.2
Other long-term liabilities	175.5	201.5	190.7	194.4	198.8
Non-controlling interest	-	-	-	-	-
Shareholders' equity	192.4	137.7	129.4	172.7	218.3
	1,024.5	935.6	831.2	783.0	723.3

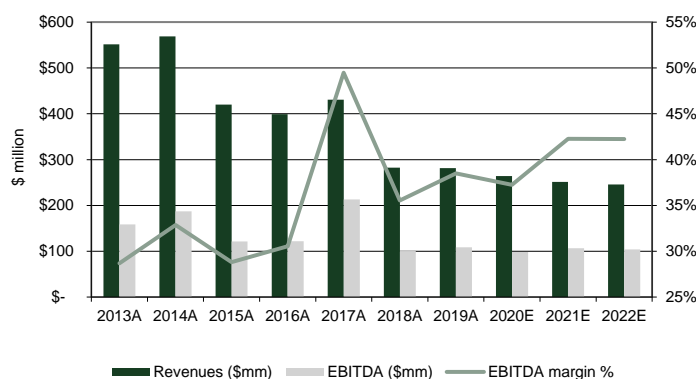
Leverage Ratios	2018A	2019A	2020E	2021E	2022E
Net debt	634.3	556.1	513.5	402.5	238.6
Net D/D+E	77%	80%	80%	70%	52%
Net debt-to-EBITDA	4.2x	3.5x	3.4x	2.7x	1.6x

Segmented Operating Metrics	2018A	2019A	2020E	2021E	2022E
Generation Capacity (net)					
Natural Gas	822	822	822	822	522
Wind	-	-	-	-	-
Biomass	196	271	271	271	271
Hydro	129	129	129	129	129
Coal	105	105	105	105	105
	1,252	1,327	1,327	1,327	1,027

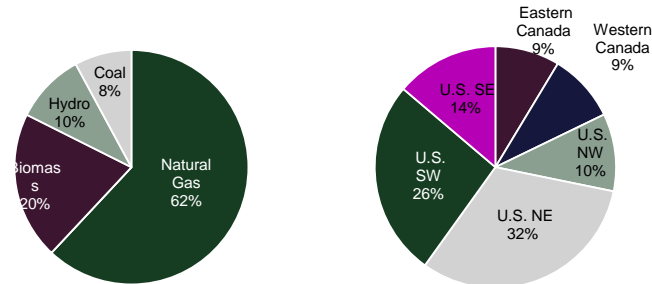
Project Revenue - Consolidated	2018A	2019A	2020E	2021E	2022E
Solid Fuels	83.8	80.0	91.1	60.8	67.1
Natural Gas	139.2	131.9	111.5	124.5	112.4
Hydro	58.3	68.8	60.5	65.3	65.3
Un-allocated corporate (ex. Wind)	0.9	1.0	0.9	1.0	1.0
	282.2	281.7	264.0	251.5	245.8

Project Adjusted EBITDA	2018A	2019A	2020E	2021E	2022E
Solid Fuels	46.8	32.7	35.2	37.1	42.0
Natural Gas	90.5	107.5	104.4	94.7	86.9
Hydro	47.6	55.5	47.0	52.9	52.8
Un-allocated corporate (ex. Wind)	0.5	(0.3)	(1.1)	(0.2)	(0.2)
	185.4	195.4	185.5	184.5	181.5

Revenue and EBITDA History and Forecast



Generating Capacity Segmented by Source and Regional Asset Base (2020E)



2020 Quarterly Estimates	Q1A	Q2A	Q3A	Q4E
AFFO	(0.01)	0.09	0.10	0.05
EPS (ex. items)	0.13	(0.01)	0.13	0.03
Project Adjusted EBITDA (\$mm)	50.8	36.7	49.5	48.2

Source: Company reports, Thomson Reuters, TD Securities Inc. estimates



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TD Securities Equity Research Disclosures

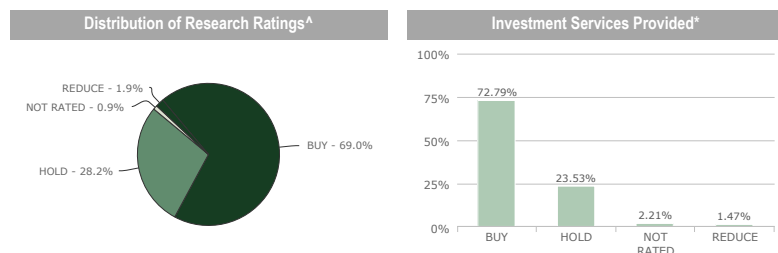
Company	Ticker	Disclosures
Atlantic Power Corp.	AT-N ATP-T	n/a

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Current as of: January 15, 2021

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Action Note

Equity Research

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