



Why Altagas Ltd. Rallied +6% in a Day

Description

Altagas Ltd. ([TSX:ALA](#)) rallied more than 6% on Thursday after releasing its second-quarter results. It also increased its dividend.

The business

Altagas is a diversified energy infrastructure business with three areas of focus: natural gas, power, and regulated utilities.

Altagas earns 42% of its earnings before interest, taxes, depreciation, and amortization (EBITDA) from its contracted-power business segment, 37% from its utility business, and 21% from its midstream business.

Geographically, it earns about 50% of its EBITDA from Canada and 50% from the U.S. So, a strong U.S. dollar against the Canadian dollar increases Altagas's profitability.

Second-quarter results

Altagas's second-quarter results were stellar. Compared with the second quarter of 2015,

- normalized EBITDA increased 43% to \$153 million,
- normalized funds from operations increased 68% to \$114 million, and
- normalized net income increased 222% to \$29 million.

These results were greatly attributable to the significant growth Altagas experienced in its power segment in late 2015 with the addition of the San Joaquin assets and the McLymont Hydro facility. Specifically, the San Joaquin assets contributed about \$27 million to normalized EBITDA.

As well, in June Altagas reduced its non-utility workforce by 10%, which is anticipated to reduce operating and administrative costs by \$7 million per year.

Recent events

This year Altagas planned capital spending of \$600-650 million. About 69% of that was invested in the natural gas-processing Townsend facility with logistical infrastructure and gathering systems. The facility was completed ahead of schedule and under budget. It's online this month and will start contributing to Altagas's cash flows.

At the end of June Altagas invested \$150 million Petrogas preferred shares, which generates 8.5% dividend yields, equating to \$12.75 million per year. These preferred shares are redeemable at any time on or after January 1, 2018, and are convertible into common shares at any time on or after April 19, 2018.

Dividend

As Altagas increases its asset base and cash flows, it has been rewarding shareholders with a growing dividend. It has increased its dividend for five consecutive years.

Altagas just increased its dividend by almost 6.1%. The new monthly dividend of 17.5 cents per share will start being paid in September, and it will be almost 9.4% higher than it was a year ago.

If Altagas maintains this monthly dividend until the end of the year, it will have increased its dividend per share by 8.7% per year since 2011.

The latest increase brings Altagas's annualized dividend per share to \$2.10, paying out less than 60% of its 2015 cash flows. So, Altagas's dividend should be more than sustainable.

Conclusion

Altagas is an investment-grade company with an S&P credit rating of BBB and a strong track record of execution. Altagas has come a long way; it started with two gas-service contracts more than 22 years ago to now have an asset base of over \$10 billion.

At \$33.20 per share, Altagas trades at a reasonable valuation of 9.5 times its cash flow and offers a safe 6.3% yield, which can help boost the income of your diversified portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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