Can You Get a Safe Income From Altagas Ltd.?

Description

Altagas Ltd.'s (TSX:ALA) 6.3% yield is attractive. It more than doubles the income that's available from the market, which yields 2.8%. (The market is represented by **iShares S&P/TSX 60 Index Fund**, which consists of 60 large companies on the Toronto Stock Exchange.)

Since Altagas offers a higher income than the market, you might wonder if it's sustainable. The type of business that Altagas is in might give some indication of the stability of its dividend.

The business

Altagas owns a diversified portfolio of assets, totaling $10 billion, across three business segments: power, gas, and utilities.

The company earns 50% of its earnings before interest, taxes, depreciation, and amortization (EBITDA) in Canada and the United States, respectively. So, the stronger U.S. dollar against the Canadian dollar benefits its financial performance.

Altagas's nearly 1,700-megawatt power generation in four clean fuel types contributes 42% of its EBITDA.

The company processes and moves about two billion cubic feet of natural gas and natural gas liquids each day. The gas segment contributes 36% of its EBITDA.

Lastly, the company has five utilities that deliver natural gas to 560,000 residential and commercial customers. The utility segment contributes 22% of its EBITDA.

Earnings and cash flow stability

Altagas cut its dividend in 2010 and 2011. However, back then Altagas was much less diversified and riskier than it is now.

In 2010 Altagas earned about half of its EBITDA from its midstream segment, and it had 50% of its

EBITDA that was sensitive to commodity pricing. Since then, the company has greatly expanded its other two segments as well as reduced its commodity exposure to only 2%.

Furthermore, Altagas's cash flows are supported by long-term contracts that average at least 14 years. So, the company's improved earnings and cash flow stability indicate its dividend is the safest it has been than ever before.

Dividend

Since 2012 Altagas's dividend has stayed strong and has grown by more than 9% a year on average. This year marks the fifth year that Altagas has increased its dividend.

Altagas's funds from operations (FFO) payout ratio is 57%. Its adjusted FFO payout ratio is 65%, which aligns with the industry average.

Management believes it can continue growing its dividend. A **TD** report indicates Altagas can grow its dividend by about 6% per year in the near term.

Growth

Altagas has planned $2.6-3 billion worth of projects across all its business segments to come online from 2016 through 2020.

Among those projects, Altagas invested $430 million in the Townsend midstream facility, which came into service in July and is estimated to add $40-50 million of EBITDA per year.

Conclusion

Altagas has a business diversified across its gas, power, and utility assets. Since 2010 it has improved the stability of its earnings and cash flows.

Further, it has planned projects for all three segments through 2020, which will grow its asset base, earnings, and cash flows.

Altagas is one of the most attractively priced companies among its peers, as it is priced at about 10 times its adjusted FFO.

Being conservative and assuming it doesn't experience any multiple expansions but continues to pay a 6% dividend yield and grows its dividend at about 6% a year, investors can expect an average 12% annualized return.

Altagas is a stable, diversified business to be considered today for high income and is a stronger buy on any dips.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

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