



Why Altagas Ltd. Jumped 4% in a Day

Description

Utilities don't usually make big jumps. So, it was impressive that **Altagas Ltd.** ([TSX:ALA](#)) climbed 4.2% on Thursday.

Well, to be fair, Altagas isn't just *any* utility. It's one that is divided across three segments: power, gas, and utilities. As well, it is committed to creating value and showing it with a big dividend.

On Altagas's website, it says, "[It] is committed to balancing yield and growth, maintaining financial strength, and remaining disciplined in allocating capital to provide future value for shareholders."

The portfolio

Altagas has about \$10 billion of assets that should bring in about \$2 billion of revenue for the year.

The utility has nearly 1,700 megawatts of power generation in four clean-fuel types that contribute 42% of its earnings before interest, taxes, depreciation, and amortization (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.

The company earns half of its EBITDA in Canada and the other half in the United States. So, a stronger U.S. dollar against the Canadian dollar benefits its financial performance.

Why did it jump 4%?

Altagas just released strong third-quarter results. Some of its Q3 highlights include strong, normalized EBITDA of \$176 million—a 41% increase over the third quarter of 2015, and a 34% increase in normalized funds from operations (FFO) to \$137 million.

It also made much incremental progress, such as reaching a positive final investment decision on the

North Pine NGL Facility, having the 198 Mmc/d Townsend Facility come into service with processing volumes increasing as expected, and advancing the plans for expanding Townsend, which will include an additional 100 Mmc/d shallow-cut processing capability.

Furthermore, management's outlook for this year remains positive. It expects to deliver normalized EBITDA growth of about 20% and normalized FFO growth of roughly 15%.

Big dividend

Even after its share price has risen to nearly \$35, Altagas still yields 6%, which more than doubles the yield available from the market.

The utility pays a monthly dividend that totals \$2.10 per share a year. Since those are eligible dividends, they're more favourably taxed than ordinary income if held in a non-registered account.

The company's normalized FFO payout ratio was below 61% in the first three quarters. So, its FFO can cover its dividend with leftovers to help invest for future growth.

Conclusion

Although Altagas's dividend yield of 6% is compelling, investors should wait for a pullback because it just had a big daily jump. It would be a great place to start accumulating shares between \$31 and \$33 for a higher starting yield.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

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