

## Who Wants a Safe, Big, Quality Dividend?

### Description

**Altagas Ltd.** ([TSX:ALA](#)) dipped 6.5% since last week. At under \$32 per share, it yields 6.6%. This is more than twice as big as what the market offers!

But is the dividend safe? First, let's take a look at Altagas's business and assets.

### Business overview

Altagas is divided across three business segments: power, gas, and utilities. It has about \$10 billion of assets that should bring in roughly \$2 billion of revenue this year.

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 loonie will further secure its dividend.

### Assets

First, the utility has almost 1,700 megawatts of power generation in four clean-fuel types, which contribute 42% of its earnings before interest, taxes, depreciation, and amortization (EBITDA).

Second, 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.

Third, the company has five regulated utilities that deliver natural gas to 565,000 residential and commercial customers. The utility segment contributes 22% of its EBITDA.

natural gas storage tanks

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### Dividend and its safety

Altagas pays an eligible dividend that's more favourably taxed than your job's income if you hold the shares in a non-registered account.

This year marks the sixth consecutive year in which Altagas has grown its dividend per share. Since 2010 it has hiked its dividend at a compounded annual growth rate of 8.5%. The company's monthly dividend is 6% higher than it was a year ago.

Since 2010 Altagas has reduced the commodity exposure of its EBITDA from 50% to about 2% this year. So, its dividend is safer than it was then.

Moreover, since the utility's payout ratio is expected to be below 88% this year, its dividend should remain sustainable.

## Growth

This year the utility's biggest investment was the \$430 million Townsend gas-processing facility, which came into service in July.

In addition, it has \$2.2-2.6 billion of projects in its pipeline across all three business segments. As these projects come into service through 2020, Altagas's cash flow should steadily increase to make a safer dividend.

## Conclusion

Altagas is an investment-grade company with an S&P credit rating of BBB, and it has a reasonable debt/cap of 40%.

It offers an attractive 6.6% yield with a sustainable payout ratio. Additionally, at below \$32 per share, Altagas trades at a price-to-cash-flow ratio of 9.9, which is within fair valuation.

If the shares fell to the \$26-28 level, it will be time to back up the truck for an even higher yield.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)

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