5 Top Reasons to Invest in Altagas Ltd. Today

Description

Conservative investors should consider **Altagas Ltd.** (TSX:ALA).

It offers a big dividend that is sustainable and growing. It is a diversified energy infrastructure company, which generates stable earnings and cash flows that are largely contracted or regulated. The shares are trading at a reasonable valuation.

Altagas is working on a large acquisition that will triple its utility customers, increase its power-generation gross capacity to about 1,900 MW, and add $4.6 billion of investment projects to its pipeline.

A big dividend that's growing

Altagas has increased its dividend for five consecutive years at a rate of 8.7% per year. At about $31, the shares offer a whopping yield of 6.7%, which is sustained by a normalized funds from operations (FFO) payout ratio of about 61%.

Currently, Altagas is working hard to acquire **WGL Holdings Inc.** (NYSE:WGL), which is a high-quality utility with regulated gas utilities as its primary assets.

If Altagas acquires WGL successfully, management believes it'll support dividend growth of 8-10% per year through 2021.

A diversified company

Altagas generates about an equal amount of earnings before interest, taxes, depreciation, and amortization (EBITDA) from Canada and the United States. So, it benefits from a stronger U.S. dollar against the Canadian dollar. It has three core business segments: power generation, natural gas distribution, and midstream.

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gas

The company processes and moves about two billion cubic feet of natural gas and natural gas liquids per day. It generates 1,688 MW of power using natural gas, hydro, wind, or biomass.

Altagas also has one of the largest North American electricity storage facility, which has a capacity of 20 MW, in its generation facility in southern California.

Additionally, Altagas has five regulated gas-distribution utilities, which deliver natural gas to more than 565,000 customers (22% in Canada and 78% in the U.S.).

Stable earnings and cash flows

Altagas generates about 41% of its EBITDA from contracted power, 36% from regulated gas distribution, and 23% from highly contracted midstream.

Contracted power and regulated utilities contribute about 75% of its EBITDA. Moreover, Altagas's cash flows are supported by long-term contracts. For instance, the weighted average term of Altagas's power contracts is about 14 years. These factors help keep the company's EBITDA and cash flows stable.

Reasonable valuation

Altagas trades at a price to funds from operations ratio of about 9.3, which is reasonable for its growth profile compared to its peers.

The WGL Holdings acquisition

Altagas is expected to close the WGL acquisition by Q2 2018. If it succeeds, Altagas will have $22 billion of assets.

And the combined company will be diversified across eight utility jurisdictions in more than 30 states and provinces.

WGL will be accretive to Altagas's earnings and cash flows per share, supporting dividend growth of 8-10% per year through 2021 with an improved payout ratio.

Investor takeaway

Altagas generates earnings and cash flows from North America. Its cash flows are largely contracted or regulated, which support its 6.7% dividend yield.

The diversified energy infrastructure company is reasonably priced at about $31 per share. The WGL acquisition will boost its growth and make its dividend safer.

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