Why Altagas Ltd. Stock Could Easily Jump 25% From Here

Description

As an **Altagas Ltd** (TSX:ALA) investor, if you're worried about the stock's weak performance this year — it's down almost 9% year to date in contrast to utility peer **Fortis Inc.** (TSX:FTS)(NYSE:FTS), which is up almost 6% so far — don't lose heart. The market appears to be missing the massive growth potential Altagas is sitting on. Soon enough, you could see shares roar back again.

Why Altagas is down

Altagas has been under pressure ever since rumours of the company's intended acquisition of **WGL Holdings Inc.** (NYSE:WGL) surfaced. On January 25, Altagas confirmed its intentions to acquire the U.S.-based utility WGL for a whopping $8.4 billion, which then represented an 11.8% premium over WGL's previous day's closing stock price.

The market is perhaps apprehensive about the premium that Altagas is paying and the fact that it'll also assume debt worth $2.4 billion from WGL at a time when it already has debt worth nearly $3.4 billion on its books and negligible cash and cash equivalents.

Don't overlook the growth potential

The WGL deal — which could take at least a year to close — is significant for Altagas for several reasons.

First, Altagas will nearly double in size in terms of market cap as it's a merger of equals. That's definitely a huge growth leap for any company.

Second, WGL will give Altagas huge headway in the U.S. market thanks to WGL's solid footing in the Washington D.C. metropolitan regions.

Third, the combined entity will have significant stake in regulated utilities, which should mean more stable revenues and earnings in the long run.

Fourth, WGL is already on a strong growth trajectory with its utility operating profit growing 8% in FY

2016, pushing the company’s earnings per share to record highs. WGL is targeting another record year for FY 2017.

Fifth, and most importantly, WGL is primarily a natural gas service company, which means Altagas will become a bigger player in renewable energy. In other words, Altagas will essentially invest in the future with this acquisition.

There’s no question about the deal unlocking value; Altagas expects the acquisition to be immediately accretive, adding 8-10% to earnings per share and 15-20% to funds from operations per share on average through 2021. Altagas is confident it can support 8-10% annual dividend growth through 2021.

Trust Altagas

Management’s execution over the years is credible enough for investors to trust Altagas with this acquisition — the company has more than tripled its asset base to $10 billion since 2010 largely via acquisitions. Its dividend has grown at an annual compounded rate of 8% since, and its funds from operations, which support its growth and dividend spending, has more than tripled during the past decade.

So, for all those investors who’ve been ignoring analysts’ recent upgrades for Altagas stock, it’s time to sit up and take notice. **Macquarie** and **CIBC** are just two analyst firms that recently upgraded Altagas; CIBC put a price objective of $39 a share. That represents 25% upside from current prices, which isn’t a frothy estimate.

Throw in Altagas’s generous dividend yield of 6.8% — which handily beats Fortis’s 3.64% yield — and you could be laughing your way to the bank in some years if you buy Altagas stock today.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/25

Date Created
2017/04/21
Author
nehams