



Buy This High-Yield Stock While it's Cheap

Description

Since 2010, **Altagas Ltd.** ([TSX:ALA](#)) has grown its assets from \$3 billion to more than \$10 billion. The best time to buy dividend stocks such as Altagas is when their shares are depressed.

Discounted shares

Altagas's shares pulled back in January when the company announced it would acquire **WGL Holdings**. The shares have been building a nice base at the \$30 level since then.

Currently, it is an opportunity to buy Altagas's shares at a discount and for a big yield of 6.8%. If you buy the Altagas subscription receipts (TSX:ALA.R), you'll get an even higher yield of 7% because the receipts trade at a discount to the common shares and offer a dividend equivalent payment.

The original \$2.5 billion subscription receipt offering was capital raised for the WGL acquisition. Of the \$2.5 billion, there was \$400 million, or 16% of the offering, which was done as a private placement for the pension plan for Ontario's municipal employees.

If the WGL acquisition isn't successful, receipt holders will get \$31 per receipt back. If the acquisition goes through, the receipts will convert to Altagas common shares. Since the receipts trade at about a 4% discount to \$31, investing in the receipts today pretty much guarantees an annualized rate of return of 11%.

natural gas storage 16-9

The business

Altagas is a diversified energy infrastructure business with three segments. This year, it estimates to generate 40% of its normalized earnings before interest, taxes, depreciation, and amortization (EBITDA) from its energy power generation, 36% from its utilities, and 24% from its natural gas operations. The company generates half of its EBITDA from Canada and the other half from the United States.

Altagas has the capacity to generate 1,688 MW of power using natural gas and renewable energy. Additionally, it has 20 MW of energy storage at its Pomona facility in California. This is one of the largest battery storage facilities in North America and is able to provide 80 MWh of electricity over a continuous four-hour period.

Altagas also has five regulated gas-distribution utilities which serve more than 570,000 homes and businesses. Moreover, it processes and transports natural gas and natural gas liquids to key markets.

Dividend

Altagas's diversified business helps improve the stability and predictability of its earnings and cash flows, which in turn improves the safety of its dividend.

Since 2010, the energy infrastructure company has increased its dividend per share at a compound annual growth rate of 7.4%, which shows management's commitment to growing its dividend.

Going forward

WGL is a quality company with a strong balance sheet and a high S&P credit rating of A (compared to Altagas's investment-grade S&P credit rating of BBB). WGL will add regulated gas utility assets to Altagas's portfolio, after which regulated utilities will generate about 55% of Altagas's EBITDA.

Altagas is working hard on the acquisition and aims to close it by mid-2018. In the meantime, it continues to work on other projects. These projects include the upgrading of its Townsend facility to increase its gas-processing capabilities to meet demands, and the building of the Ridley Island Terminal, which will be the first propane export terminal on Canada's west coast.

Investor takeaway

Altagas continues to grow its diversified business while it works on the \$8.4 billion WGL acquisition, which includes the assumption of about \$2.4 billion of debt.

As Altagas makes progress on its projects and in the acquisition, its shares will likely move steadily higher. In the meantime, investors can buy its shares (or better yet, its subscription receipts) at a depressed price for an outsized yield of about 7%.

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