# Why You Shouldn't Care About Altagas Ltd.'s Stagnant Share Price

## Description

The share price of **Altagas Ltd.** (TSX:ALA) will likely stay about the same for the next 12 months. The company pushed out some subscription receipts at $31 per receipt as a part of the funding for its acquisition of **WGL Holdings** (NYSE:WGL), which is expected to complete in mid-2018.



The receipts helped raise gross proceeds of $2.5 billion, of which 19% was completed as a private placement to the pension plan for Ontario's municipal employees.

When the receipts started trading, they often traded at a 3-4% discount to the Altagas common shares. As investors understood the receipts better, the discount gap steadily closed. On Friday, the receipts closed at only a 1% discount to the common shares.

Since the receipts and common shares last closed at $30.04 per receipt and $30.35 per share, respectively, there's no reason for the common shares to go much higher because of the cheaper receipts.

And there's no reason for the receipts to go higher than $31 per receipt because if the WGL acquisition falls through, receipt holders will receive $31 per receipt back. So, it's likely that the common shares won't go higher than $31 for the next 12 months.

Both the receipts and common shares offer the same "dividend." There are differences though. The receipts' distributions are comprised of interests and return of capital, whereas the common shares offer eligible dividends.

**So, why shouldn't you care about Altagas's stagnant share price?**

The company currently yields close to 7% with a payout ratio of about 88% this year. You can't find many stocks with sustainable high yields on the market that are trading at reasonable valuations.

The shares currently trade at about 9.1 times Altagas's cash flow for this year, which is at the low end of its historical trading range in the last few years. If you can grab the shares at a 7% yield, you can double your investment in a little over 10 years — without needing any price appreciation (or dividend growth for that matter).



**Altagas doesn't need WGL to succeed**

Sure, WGL will add quality regulated gas utilities to Altagas's portfolio, but Altagas doesn't necessarily need WGL to succeed. Altagas currently generates earnings from a diversified portfolio of energy infrastructure assets in three segments: regulated gas utilities, natural gas processing and transportation, and power generation.

WGL will no doubt be a transformative acquisition for Altagas. That said, Altagas has been working on other projects as well. 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**

With all that's said, an investor would buy Altagas for a nice income. In the near term, the shares may be stagnant. But if Altagas acquires WGL successfully, it plans to increase its dividend by 8-10% per year through 2021.

If it doesn't, management would still likely increase its dividend, as it would want to continue its dividend-growth streak, which it has maintained for five years at a compound annual growth rate of 8.8%. Its sustainable payout ratio and new projects that will boost cash flow also support that view.

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