



## A Huge Bargain to Make You Tremendously Wealthy

### Description

If the Bank of Canada hikes the overnight rate target, it will eventually lead to rate hikes in loans such as commercial loans, consumer loans, and mortgages. The hikes may eventually stunt economic growth as borrowing costs increase.

In the last 10 years, the target for the overnight rate had been as low as 0.25% and as high as 4.5%. In July, the Bank of Canada hiked the overnight rate target by 0.25% to 0.75%, which is still a long way off from the high.

Some analysts believe there will be another hike in October and potentially two more next year. If the Bank of Canada hikes the rate by 0.25% each time, it would double the rate to 1.5% by the end of next year.

Not to worry, though. Here is a dividend-growth star in the making which has an enormous dividend yield and promising growth to counter any interest rate hikes that may come our way.



### Amazing discount

**Altogas Ltd.** ([TSX:ALA](#)) stock has been punished lately with a pullback of ~20% in the last 12 months.

At ~\$27.50, the company trades at a steep discount of ~40% compared to its 2014 high on an operating cash flow multiple basis and a ~19% discount from its normal multiple.

The weakness in Altagas's share price has partly to do with declining natural gas prices since late 2016 and with the uncertainty surrounding its large pending acquisition of **WGL Holdings**.

### **Earnings have little commodity exposure**

In reality, Altagas estimates to earn only a quarter of its earnings before interest, taxes, depreciation, and amortization (EBITDA) from its natural gas processing and transporting business.

The energy infrastructure company also distributes natural gas to more than 575,000 customers through its regulated utilities segment and has power generation assets which contribute ~35% and ~40%, respectively, of its EBITDA.

Management estimates that only ~6% of its EBITDA will be subject to commodity pricing volatility this year. Altagas continues its march towards being a leading diversified North American infrastructure company with gas, utility, and power assets. And the WGL acquisition will further that vision.

### **The largest dividend yield since 2011! Is it safe?**

Altagas hasn't offered a yield as high as 7.6% since 2011. You may ask, "Is the dividend safe?"

Getting ready for the WGL acquisition, which is anticipated to close by mid-2018, Altagas has begun selling some of its assets. Shareholders may be concerned that this action will reduce the company's earnings and cash flows and put the dividend in jeopardy.

However, let's not forget that Altagas has other internal projects that are underway. Specifically, the Townsend facility expansion project is scheduled to be commercially operational in October, and management believes the North Pine project is running ahead of schedule and could come online as soon as December. Both will add to EBITDA and cash flows.

Shareholders are also delighted to see that Altagas's operations have been running so well that management improved its outlook this year and now expects to deliver low double-digit percentage growth in normalized EBITDA and a high single-digit growth in normalized funds from operations.

While reporting its Q2 results, management confirmed there will be a dividend increase in Q4. If so, this year would mark its sixth consecutive year of dividend growth. The company is deferring the dividend hike because it wants more clarity on its asset sale program first.

### **Investor takeaway**

Altagas is a compelling income and total returns opportunity today. The shares trade at a steep discount. So, the stock offers a whopping yield of ~7.6% to start.

If the WGL acquisition is successful, management aims to grow its dividend per share by 8-10% through 2021 with a conservative payout ratio of 50-60%.

From a yield and growth perspective, Altagas will handily beat any interest rate hike that comes our way. Altagas stock is an opportunity that will make you tremendously wealthy down the road, and it

would be even more compelling on any further dips.

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