



## Are Altagas Ltd.'s Subscription Receipts a GIC With a Pleasant Twist?

### Description

For a guaranteed investment certificate (GIC), you get a set rate of return from interest for a specific period of time. At the end of the period, you are guaranteed to get your principal back. Investors buy GICs for their predictable returns and the safety of the principal.

However, the low interest rates that are currently available may put investors off. Perhaps these investors can consider **Altagas Ltd.'s** ([TSX:ALA](#)) subscription receipts instead.

The subscription receipts (TSX:ALA.R) are actually a GIC with a pleasant twist — they offer current income much higher than GICs and strong near-term price appreciation potential.

### How the subscription receipts came about

Altagas made the receipts available as one way to raise funds for its acquisition of **WGL Holdings**, which is primarily a regulated gas utility that aligns well with Altagas's portfolio.

Initially, Altagas was planning to raise \$2.5 billion of gross proceeds from the receipts, but the market demand was so high that it ended up raising ~\$118 million extra.



## **Get a high yield that's paid monthly and potentially high near-term returns**

Let's not forget that ~\$400 million was allotted to a pension plan for Ontario's municipal employees, which indicates that the receipts may be suitable for conservative investors who are retired or have a focus on income.

The receipts were offered at \$31 per receipt, but they recently traded at \$27.88, a discount of 10%! On top of that, the receipts now offer a yield of ~7.5% based on the same dividend-equivalent payment (which is paid monthly) as the common stock.

The only thing different is that the dividend-equivalent payment is comprised of interest and return of capital, which are taxed differently than the eligible dividends paid out by the common stock.

If the acquisition fails, receipt holders will get \$31 per receipt back, which represents upside of ~11.2% or a total return of ~18.7% in ~10 months seeing as Altagas management expects the WGL acquisition to complete by mid-2018.

### **The caveat**

There's one caveat, though. If the WGL acquisition is successful, the receipts will be converted to Altagas common shares. And investors need to be comfortable that.

### **What does Altagas do?**

Altagas is an energy infrastructure company with three business segments: natural gas and renewable power generation (~40% of earnings before interest, taxes, depreciation, and amortization [EBITDA]), regulated gas distribution utilities (~35% of EBITDA), and gas processing and transportation (~25%).

Altagas aims to balance the three segments in the long run. Currently, it generates half of its EBITDA from Canada and the other half from the U.S.

### **Investor takeaway**

Right now, you can get a ~7.5% yield from the Altagas subscription receipts with upside to \$31 per receipt, which would be like a GIC with a pleasant twist and indicates total returns of ~18.7% in ~10 months — this is the scenario for if the WGL acquisition fails.

If Altagas acquires WGL successfully, which would be good for the long-term business, the receipts will convert to Altagas common shares. And investors need to be comfortable holding Altagas.

That said, Altagas generates ~85% of stable cash flows which support a safe dividend. So, it's a suitable investment in a diversified portfolio for conservative investors.

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kayng

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