Why Altagas Ltd. Shares Popped Yesterday

Description

With third-quarter earnings season gearing up, we are seeing strong numbers in many TSX-listed Canadian companies.

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) is a good example.

With increasing revenue and volumes, Canadian Pacific benefitted from overall strong economic growth, primarily in the metals, minerals, and consumer products industries, which saw a 40% year-over-year increase in volumes.

Pricing was strong, with an almost 3% rise, and the company's operating ratio (operating expenses as a percentage of revenue) was 56.7%, down from 57.7%. This compares to **Canadian National Railway Company's** (TSX:CNR)(NYSE:CNI) operating ratio of 55.1%.

So, it was a good performance from the company against a strong macro background where economic growth is accelerating.

As a result, the company increased its 2017 expectations, calling for EPS to increase in the double digits versus 2016, reflecting management's optimistic outlook on pricing, volume, and its operating ratio.

With **Altagas Ltd.** (TSX:ALA), which is another great example, we have another earnings beat and a 4.3% dividend increase, causing the stock to rise almost 5% in trading yesterday.

This follows second-quarter results which were also better than expected, as the company has been enjoying strong momentum both operationally and financially.

As a result, management is expecting low double-digit growth in normalized EBITDA and high single-digit growth in normalized funds from operations.

The dividend increase is a little bit less than expected, but it shows management's optimism regarding the company's future. They have just chosen to take a more conservative approach to dividend increases, which is a respectable option.

The $8.4 billion **WGL** acquisition, which will add additional high-quality assets and give the company a significant footprint in the U.S. and Canada, has left investors with many questions. The approval process is slow and uncertain, the closing date is uncertain, although management expects that final approvals will come in during the first half of 2018, and the implementation of financing is also a big uncertainty.

It is management's expectation that this acquisition will provide 8-10% earnings accretion and 15-20% accretion to funds from operations. And from 2019 through to 2021, we will see 8-10% dividend growth, while management ensures the conservative payout ratio is maintained.

This acquisition is significant and brings with it a plethora of growth opportunities. The company has identified $5 billion in immediate growth opportunities plus an additional $2 billion in opportunities through to 2021.

Back to the financing of the acquisition: the company does not appear to have made much progress with its asset sale process, but it continues to work on it.

While we wait for this uncertainty to lift, the dividend yield of 7.11% makes Altagas the energy infrastructure name to own.

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