Is Altagas Ltd. a Buy After its Strong Q3 Results?

Description

Altagas Ltd. (TSX:ALA) released its third-quarter results on Thursday, which showed the company achieving a modest 2% revenue growth and an earnings per share of $0.10, down from $0.28 a year ago. However, normalized EBITDA of $190 million was up 8% from $176 million that the company recorded in 2016.

Let's have a deeper look into the earnings release to see whether the stock is a good buy today.

Net income weighed down by losses and acquisition costs

Altagas reported a profit of $18 million this past quarter, which was down significantly from the $46 million it posted a year ago. However, the main causes for the decline this quarter include $17 million in unrealized losses, $9 million in acquisition costs, and $4 million in costs related to the company's bridge facility.

Without these items, normalized net income totals $48 million and is up from $38 million a year ago for an increase of 26%.

Segment breakdown

Altagas saw the largest normalized EBITDA growth come from its gas segment, with a 21% year-over-year increase. Utilities were up 15%, while power was flat compared to last year.

WGL Acquisition expected to close in 2018

Earlier this year, Altagas entered an agreement to acquire **WGL Holdings Inc.** (NYSE:WGL). Altagas expects this acquisition to propel its growth even further as WGL is also involved in energy infrastructure and has operations in the U.S., which will help Altagas expand its market share and have a more diversified customer base.

The transaction is still pending, and Altagas expects it to be completed in the first half of 2018.

Dividend hiked 4.3%

Altagas has a strong reputation for increasing dividends, and the company announced in its release that monthly distributions will rise to $0.1825 in December, up from $0.175. Last year the company raised its dividend in time for the September payment, and it was an increase of more than 6%.

The company has not followed a rigid pattern in terms of dividend hikes, but since 2012 payouts have grown more than 50%. Once WGL is fully integrated, Altagas expects to grow its dividends by as much as 10% per year.

Guidance remains strong

The company's expectations for the year continue to remain intact with growth to stay in the low double digits. Altagas continues to make capital investments to increase production and its Townsend 2A facility started operations just this month and will help add to the company's growth. The company is committed to growing all of its segments to ensure a balanced growth strategy.

Is the stock a buy today?

Altagas is a great long-term investment for investors looking to get a great growing dividend that has a lot of potential for future growth. The stock hasn't had a great year thus far with losses of 13% year to date. However, once the WGL acquisition is completed, the company will get a boost to its top and bottom lines, coupled with more opportunities to grow its operations.

In the short term, investors have responded positively to the company's quarterly results with the share price up over 4% on Thursday, and hopefully that can help build some positive momentum for the underperforming stock. Over the long term, the stock has a very promising future, which is why this is an investment that I plan to hold on to for years.

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