Altagas Ltd. Share Price Is Soaring After its Q3 2017 Results Release

Description

Altagas Ltd.'s (TSX:ALA) share price is firing on all cylinders after the release of its third-quarter results on October 19. Investors seem to be pleased with the results and the dividend hike.

Strong third-quarter results

Altagas saw its revenue grow by 2% to $502 million in the third quarter of 2017 compared to the third quarter of 2016.

The energy company achieved record third-quarter normalized EBITDA of $190 million — an increase of approximately 8% over the same quarter last year.

Some of the factors that contributed to the increase in normalized EBITDA are higher realized frac spread and frac exposed volumes, higher equity income from Petrogas, colder weather in Alaska and Alberta, a full quarter of contributions from the Townsend Facility, and contributions from the Pomona Energy Storage Facility.

However, other factors had a negative impact on the company's results: the sale of the Ethylene Delivery Systems and the Joffre Feedstock Pipeline transmission assets in March, lower ethane revenue due to lower volumes and prices, and the impact from a weaker U.S. dollar on reported results from U.S. assets.

Altagas saw its normalized net income grow by 26.3% to $48 million, and achieved normalized funds from operations (FFO) of $143 million in the third quarter — an increase of 4.4%.

On a per-share basis, Altagas's normalized net income was 21.7% higher at $0.28, and FFO was 1.2% lower at $0.83. Analysts had forecasted earnings per share of $0.19.

Each of the three business segments in which Altagas operates (gas, utilities, and power) performed very well and showed increased results as compared to 2016.

An anticipated dividend hike

Altagas increased its monthly dividend by 4.3% from $0.175 per share to $0.1825 per share ($2.19 per share annualized), beginning with the December 15, 2017, payment. The last dividend increase was in July 2016. The new dividend payment gives a high yield of 7.2%.

Altagas's share price soared by almost 5% last Thursday, which looks like a reaction to the dividend hike. The share price is now up 9% from its 52-week low of $26.87 in August.

WGL Holdings Inc. acquisition

Altagas expects the $8.4 billion **WGL Holdings Inc.** acquisition to close in the first half of 2018.

The company plans to fund the acquisition with the proceeds from its $2.6 billion subscription receipts, which closed in the first quarter of 2017. In addition, Altagas has a US$3 billion bridge facility, which can be drawn at the time of closing.

Altagas is also planning to sell assets to fund its WGL purchase. It has identified specific assets that it will sell, including the Blythe and Tracy facilities in California and certain small non-core assets. Additional financing steps are expected to be undertaken in 2018.

Altagas thinks that WGL will be materially accretive to earnings and FFO. Specifically, management estimates the acquisition will be accretive to earnings per share by 8-10% and FFO per share by 15-20% on average through 2021.

It will also support dividend growth per share of 8-10% from 2019 through 2021, while allowing Altagas to maintain a conservative payout ratio (around 60%) based on normalized FFO. About 90% of Altagas's dividend is supported by long-term contracted cash flows, so its appears that its dividend is safe.

Bottom line

Altagas is a great stock for investors seeking both high income and growth. However, the stock is a bit expensive with a forward P/E of 28 and a forward PEG of 1.6.

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