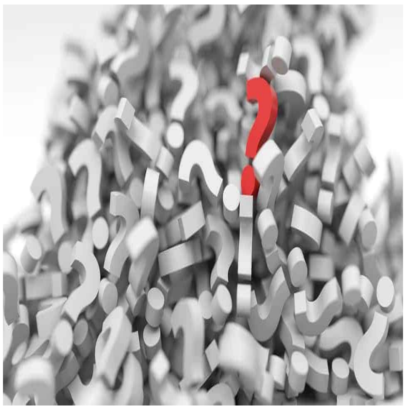

# Is Altagas Ltd. a Value Play at Current Levels?

## Description

The discussion surrounding Canadian energy and utilities company **Altagas Ltd.** (TSX:ALA) has interested me for some time now. In a sense, I can understand the bullish arguments many investors are making from a dividend yield perspective or a growth perspective; however, as I'd mentioned in a previous article in mid-2017, I have a $25 price target on Altagas for this year for a few reasons, which I'd like to highlight for those considering Altagas as a potential value play.



**Altagas is increasingly becoming a utilities company**

Looking only at Altagas's name and ticker symbol, one might immediately assume that the company is a gas-only play in Canada, but the fact remains that the company is much more diversified than that across North America. In fact, the recent acquisition of **WGL Holdings** last year propelled the company into the U.S. market in a big way, although, as I've mentioned previously, I believe this deal may destroy value for shareholders in 2018, which is one of my reasons for being overly bearish on Altagas than other contributors here on The Motley Fool.

That being said, in 2019 the company is expecting to increase its utilities portfolio to 50% of EBITDA from approximately 35% expected in 2018, while relying less on electricity (with power generation remaining stable). This change in the medium-term makeup of the company's earnings is one which I believe will be negatively impacted by rising interest rates, given the fact that the company expects to actually be negatively impacted by the recent tax reductions in the U.S. in the company's utilities segment.

I actually like the company's power-generation revenues much more than its utilities portfolio, given the fact that its long-term contracts (primarily in B.C.) are tied to the CPI and will increase over the 60-year period of the contract. Instead of increasing exposure to utilities, a move into renewable energy or increasing its hydro portfolio would have been much more attractive to long-term investors in this current environment, in my opinion.

**Dividend hike ill-timed**

If anything, I believe Altagas should have focused on keeping its already sky-high yield constant instead of raising its yield; however, the company decided to hike its monthly dividend from $0.175 in November to $0.1825 in December. This move has been cheered by many; however, given the fact that Altagas has done a poor job at returning value to shareholders on a return-on-equity (ROE) and return-on-assets (ROA) basis compared to the index (see below), I believe the dividend distributions could have been better spent within the company to improve operational performance.

| Metric | Altagas | Index |
|---|---|---|
| ROE (Trailing 12 Months) | 2.3% | 13.9% |
| ROA (Trailing 12 Months) | 0.8% | 3.7% |

Stay Foolish, my friends.

**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**TICKERS GLOBAL**

1. TSX:ALA (AltaGas Ltd.)



**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**Date**
2025/08/01
**Date Created**
2018/02/04
**Author**
chrismacdonald