Should You Give Up on Altagas Ltd.?

Description

After seeing how the market has treated **Altagas Ltd.** (TSX:ALA) in the last year, it seems many investors have given up on the stock.

Let's put Altagas's share price decline in perspective. Many other companies in the energy infrastructure industry or the utility sector have also declined a lot in the last year.

Altagas's stock has corrected 21% in the last 12 months, while **Keyera Corp.** (TSX:KEY) is down 18%, **Inter Pipeline Ltd.** (TSX:IPL) is down 22%, and even **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), the North American energy infrastructure leader, is down nearly 25%, in the period. You'll hear pundits explain that these companies are sensitive to interest rate hikes because of their generally heavy debt loads.

Altagas's recent results

Altagas stock was actually down nearly 8% after releasing its fourth-quarter and full-year results on Thursday.

Basically, the company continued to do its thing, growing the business with some projects, including expanding the Townsend facility and constructing the Ridley Island Propane Export Terminal.

As well, the company increased its dividend by 4.3% last year. Altagas also maintained its expectation to close the huge **WGL Holdings** acquisition by mid-2018.

Altagas's revenue grew 16.7% to $2,556 million in 2017. Its normalized earnings per share increased 21.4% to $1.19, and its normalized funds from operations (FFO) per share climbed 2.3% to $3.60.

Is it time to give up on Altagas?

Investors should never give up on a stock because its share price has gone down. If the reasons why you'd originally bought the stock are still intact, there's no need to sell. In fact, at a lower price, it may make more sense to buy more.

Some investors buy Altagas shares for its above-average dividend yield. Although the share price has gone down, the company has kept its dividend intact and even managed to increase its dividend last year, while the recent payout ratio (based on normalized FFO) was under 60%.

The analyst consensus from **Thomson Reuters** has a 12-month target of $31.30 per share on Altagas, which represents +28% upside potential from the recent quotation of $24.35 per share. Due to the decline in the shares, the stock now offers a nearly 9% yield. So, the near-term total return potential is ~37%.

What will it take to turn Altagas around?

If Altagas manages to close the WGL acquisition, it should boost the company's growth, allowing for dividend growth of 8-10% from 2019 to 2021. The news should, in turn, help the company's share price.

Investor takeaway

With interest rates expected to go higher, there's no need to rush to buy (or buy more of) rate-sensitive names such as Altagas or the peers mentioned above. At least wait until the market shows some support for their shares.

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