Is This High-Yielding Dividend Stock Becoming Risky?

Description

Investors in search of dividend stocks that pay higher-than-average yields have a plenty of opportunities in Canada's energy space.

The dividend yields of some stocks have reached levels where it's becoming tough to decide if investing in these stocks is a safe bet. The Calgary-based **Altagas Ltd.** (TSX:ALA) is one such stock. Let's see if the high dividend yield of this energy infrastructure company is safe.

Altagas

Altagas is one of the largest North American energy infrastructure companies, providing natural gas and power to consumers. The company's infrastructure handles more than two billion cubic feet of gas per day, serving over 575,000 customers across North America.

With an annual dividend yield of 9.2%, Altagas has become one of the highest-yielding stocks in the energy space. Altagas shares have been under pressure since the company announced the $8.4 billion acquisition of the U.S.-based **WGL Holdings** last year.

Some investors are concerned about the money the company plans to borrow to fund this huge acquisition and how this high level of indebtedness might impact its ability to grow dividends. The slide in Altagas shares further accelerated, as interest rates started to inch higher in North America, putting more pressure on its finances.

While announcing its fourth-quarter earnings on March 1, Altagas said its WGL deal remains on track, and that it plans to close it by mid-2018.

"Together we will be a more diverse and stronger company with a complementary set of energy businesses that will open up even more opportunities to provide significant value for all of our stakeholders," the company said in the statement.

Judging by reaction in the market, it seems investors are not impressed. Altagas shares have lost 17% this year, adding to ~25% slide in its shares during the past 12 months.

Is Altagas stock risky?

The company's fourth-quarter and full-year numbers show that Altagas has a strong business, which continues to generate cash flows for its shareholders. Altagas's revenue rose 16.7% to $2.56 billion in 2017. Its normalized earnings per share increased 21.4% to $1.19, and its normalized funds from operations per share climbed 2.3% to $3.60.

The company expects its combination with WGL will bring together high-quality infrastructure assets in North America with approximately $4.5 billion in secured growth projects and $1.5 billion of additional growth opportunities through 2021.

Starting with the first full year, the WGL deal is also expected to support 8-10% growth in dividend payouts per year through 2021, while allowing Altagas to maintain a conservative payout of normalized funds from operations.

The bottom line

Trading at $23.73, Altagas shares have reached a fresh 52-week low at the time of writing. This weakness provides a good opportunity to long-term income investors to pick up its juicy 9% yield. Altagas pays a monthly dividend of $0.1825 per share, representing $2.19 per share annually.

Having said that, I don't think this stock is good for the risk-averse investors. There is still some uncertainty regarding its WGL acquisition, as the company awaits some regulatory approvals. For such investors, waiting on the sidelines is a good strategy.

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hanwar