Energy Investors: This Dirt-Cheap 8.5% Yield Stock Just Confirmed its Dividends Are Safe

Description

AltaGas Ltd. (TSX:ALA) just reported its first-quarter 2018 numbers, and if there's one thing that stands out in the report, it's management's confirmation of its growth projections for funds from operations (FFO).

That's great news for income investors who've been wary about AltaGas stock's recent price drop that has sent its dividend yield soaring to 8.5%. As of this writing, AltaGas shares are still down roughly 13.7% year to date, despite a nearly 4% rise in the past month.

Key AltaGas numbers you should know

AltaGas's revenue jumped 14%, and net income surged 53% year over year to $49 million during the first quarter thanks primarily to lower taxes and expenses related to the company's impending acquisition of **WGL Holdings Inc.** (NYSE:WGL).

AltaGas's FFO climbed nearly 16% year over year. Thanks to lower acquisition-related costs, the company's normalized FFO came in flat at ~$169 million.

Not only were AltaGas's numbers strong last quarter, but management also remains optimistic about the WGL acquisition, which should put to rest some of the market's concerns.

What AltaGas expects from WGL

During its just-released quarterly report, AltaGas confirmed it expects to close the acquisition by mid-year 2018. At the same time, AltaGas projects the combined entity's:

- Normalized earnings before interest, tax, depreciation, and amortization (EBITDA) to increase by 25-30%.
- Normalized FFO to grow 15-20%.

Those projections have been intact over recent quarters.

AltaGas further reiterated that it expects “strong” accretion to earnings per share and normalized FFO from the acquisition through 2021, and expects “visible” dividend growth between 2019 and 2021, despite a “conservative” FFO payout.

That means two things. First, “visible” dividend growth could mean AltaGas is confident of growing its dividend by 8-10% through 2021, as it recently projected.

Second, AltaGas also recently guided for 50-60% FFO payout, which means accretive FFO from the acquisition should be able to support higher dividends, leaving the company with enough cash to pare down debt and reinvest in growth projects.

Why AltaGas stock is dirt cheap now

AltaGas has several ongoing growth projects that are on track. Excluding WGL, AltaGas expects to spend $500-600 million in capital expenditures, half of which will go to its gas segment and the rest to utilities and power combined. The company’s gas segment in particular should benefit from WGL’s pipeline investments in the Marcellus-Utica regions aside from AltaGas’s expansion

With the WGL acquisition projected to add 1.2 million utility customers, there’s no denying that AltaGas is taking a big leap forward with the deal.

A back-of-the-hand calculation pegs AltaGas’s normalized FFO for the trailing 12 months at roughly $3.55 per share. That means at current prices, AltaGas is trading at just around seven times price-to-normalized FFO. That looks like a steal considering the stock’s FFO growth potential and the hefty 8.5% yield that you can collect.

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