



## Major Acquisition Will Propel This Energy Company Higher

### Description

It has been a bit of a rough ride for **AltaGas Ltd.** ([TSX:ALA](#)) investors. Over the past year, its share price has dropped by approximately 20%, and it has lost about 13% year to date. This frustrating performance began with the announcement of its transformational acquisition of **WGL Holdings Inc.** The company took on a great deal of debt to finance the \$8.4 billion deal, which was broadly perceived as being too expensive.

### Regulatory process

It has been over a year since the acquisition was announced, and AltaGas has inched towards finalizing the deal. Despite what seems like forever ago, the company is still on track to close the transaction later this year, which is consistent with the company's original timeline. It recently received approval from Maryland regulators, and the only outstanding approval required is that of the D.C. Public Service Commission. It is expected that the D.C. Commission will issue its decision later this month.

### Transformational acquisition

Upon completion of the deal, the company will have \$22 billion in assets, and it will generate twice as much earnings before interest, taxes, depreciation, and amortization (EBITDA) from its U.S. operations. Funds from operations (FFO) are expected to increase by 18-20%, and its company-wide EBITDA will jump by 25-30%.

Another key outcome is its increased exposure to regulated power market, which will lead to more predictable cash flows. According to AltaGas CFO, Tim Watson: "On a combined basis, approximately 85% of total EBITDA will be underpinned by contracts or regulated assets with no direct commodity or price or volume exposure."

The deal is also anticipated to [fuel continued dividend](#) growth between 8% and 10% through 2020.

Despite short-term headwinds, AltaGas is playing the long game with the WGL acquisition.

## Juicy dividend

The company's recent price weakness has propelled its yield to record highs. As of writing, its [yield stood at an astronomical](#) 8.78%. The best part of the dividend is that it is sustainable and well covered by FFO. Don't be tricked by its high payout ratio as a percentage of earnings, as it takes into account many one-time items associated with the WGL acquisition. The company is a Canadian Dividend Aristocrat and has raised dividends for six consecutive years.

## What should investors do?

Quite simply, AltaGas is a buy. It is rare that investors can find a high-quality company that offers both significant income and growth. Once the final regulatory hurdle is overcome, the WGL acquisition will be immediately accretive to EBITDA and cash flows. The company is trading at a cheap forward price-to-earnings ratio of 17.9, and the market is discounting the impact of the WGL acquisition.

As investors wait for the acquisition to close, they can enjoy significant monthly income. As mentioned previously, the company is playing the long game; you should, too.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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## Date

2025/08/27

## Date Created

2018/05/06

## Author

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