Can AltaGas Ltd. (TSX:ALA) Trade at $30 Again?

Description

Just a year ago, **AltaGas Ltd.** (TSX:ALA) was trading at $30 per share. Today, the stock is trading at a 15% discount. This likely has to do with the fact that the company is in the process of acquiring **WGL Holdings Inc.** (NYSE:WGL) — the parent company of Washington Gas, which delivers natural gas to more than one million customers throughout Washington, D.C.

AltaGas stock has actually bounced almost 11% from a low of roughly $22.90 per share to about $25.40 per share. However, it needs to get back above roughly $26.50 per share before it can head higher.

What's weighing on the stock are the uncertainties around the financing of the merger as well as the debt load that it has taken on for the acquisition.

Uncertainties with financing

To finance this merger, AltaGas has used a mix of debt and essentially stock, including a $3.8 billion bridge facility and $2.5 billion of subscription receipts it made available in the first quarter of 2017 and which pay the same dividend as the common stock. (The receipts will convert to common shares when AltaGas completes the acquisition.)

There are still a lot of moving parts for the financing. For example, it has identified potential asset sales and expects to sell more than $2 billion this year.

AltaGas is considering selling a portion of its Northwest B.C. hydro facilities as well as selling interests or the entirety of other assets. The company is also open to other financing options, including offerings of senior debt, hybrid securities, and preferred shares.

Can AltaGas trade at $30 again?

In early May, AltaGas reiterated its expectation to close the WGL acquisition in mid-2018. As the company makes asset sales to help pay off the debt, it should help lift the stock price.

When AltaGas completes the WGL acquisition, it should boost the company's growth, allowing for dividend growth of 8-10% from 2019 to 2021. So, the completion of the acquisition should also help lift the company's share price.

Investor takeaway

AltaGas has a vision of building a diversified North American energy company with a balanced portfolio across its gas, power, and utilities segments, which generate stable cash flows to support a sustainable dividend.

AltaGas aims for a funds-from-operations payout ratio of 50-60% and expects about 85% of 2019 common dividends to be underpinned by its regulated assets.

If AltaGas acquires WGL successfully and is diligent in reducing its debt levels, the stock should eventually trade at the $30-per-share level again. In the meantime, AltaGas offers an 8.6% yield. Now is a good time to lock in a high yield.

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
2025/07/21
Date Created
2018/06/03
Author
kayng