



How AltaGas Ltd. (TSX:ALA) Stock Can Outperform the Market

Description

After a wild ride with **AltaGas Ltd.** ([TSX:ALA](#)) of about 1.5 years, and the stock falling as much as 24% from peak to trough, AltaGas's **WGL Holdings** ([NYSE:WGL](#)) acquisition is finally coming to a close — the exact date is expected to be this Friday.

AltaGas's efforts to complete the WGL acquisition

AltaGas had to gain approvals from its shareholders and WGL shareholders and get six key regulatory approvals, including the states of Maryland and Virginia as well as the District of Columbia, to close the acquisition.

Furthermore, AltaGas had to raise funds for the all-cash transaction, which represented an enterprise value of \$8.4 billion, including the assumption of about \$2.4 billion of debt.

In late January 2017, AltaGas offered [subscription receipts](#), from which it raised about \$2.6 billion of gross proceeds. This is pretty much using stock to help fund the acquisition, because these receipts will turn into AltaGas common stock once the WGL acquisition completes. (If it didn't complete, AltaGas would have had to pay receipt holders \$31 per receipt.)

Throughout the 1.5 years, AltaGas paid the same dividend-equivalent payment as the common stock for the receipt holders. At certain points in time, the receipt got cheaper than the common stock, and it was a great time to pick up the receipt for a higher yield if you believed AltaGas would pull through.

AltaGas also sold some assets, including a 35% interest in its Northwest British Columbia Hydro Electric Facilities for \$922 million, to raise funds for the acquisition.

The worst seems to be over

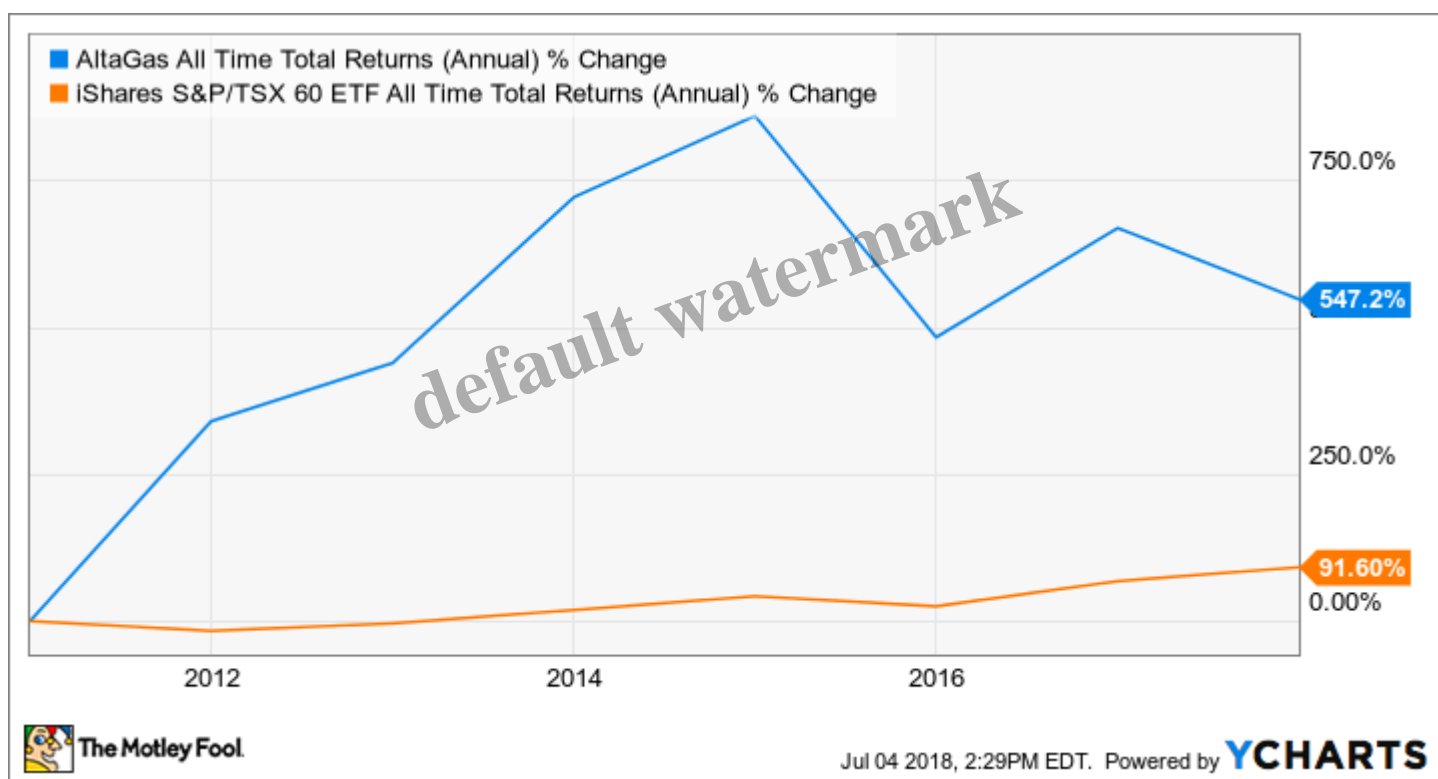
It hasn't been easy for shareholders to hold on to the stock, as it fell to the \$23-per-share level in March. When you start to second guess yourself about holding a stock, it may be the best time to buy. Since that low, the stock has recovered more than 17%.

The dividend helps a lot

One key thing that helped shareholders stay on the roller-coaster ride was the stock's dividend, which AltaGas has maintained and actually increased in the 1.5 years. At about \$27.40 per share, AltaGas stock offers a big yield of 8%.

Actually, looking back in history, AltaGas's above-average dividend yield alone has allowed the stock to outperform the Canadian market, using **iShares S&P/TSX 60 Index Fund** ([TSX:XIU](#)) as a proxy, over the long run. So, to do well, investors just have to focus on buying AltaGas, and other stocks that tend to outperform the market, at the right prices.

Here's a comparison of the total returns achieved between an investment in AltaGas and the index fund.



ALA All Time Total Returns (Annual) data by YCharts.

Investor takeaway

Dividends can help a lot with returns. However, the underlying businesses still need to put their act together and deliver long-term shareholder value. As well, investors should aim to buy stocks when the stocks are discounted to have a higher chance of [achieving outperformance](#).

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