Why AltaGas Ltd.'s (TSX:ALA) Stock Has Bounced 20% off its 52-Week Low

Description

Have you been frustrated with your investment in **AltaGas Ltd.** (TSX:ALA)? I don't blame you. The company has negative returns over the past 5-year, 2-year and 1-year periods. I'm sure this is not the type of performance you were expecting when you first bought the stock.

There is however, reason for optimism. Since hitting a new 52-week low in early March, the company has bounced approximately 20%, erasing a good portion of its losses from early in the year. Although the company is still in the red year to date, there is plenty to be excited about.

WGL acquisition

The biggest overhang on the company has been its acquisition of WGL Holdings Inc. First announced in January 2017, the $9 billion dollar acquisition has been a significant drag on the company's share price. It dropped immediately following the announcement and has been on a steady downtrend until this most recent bounce.

AltaGas was met with several downgrades as analysts' questioned the viability of the deal. Similar acquisitions were blocked by regulators and analysts' questioned if the company would be successful in garnering all the required approvals.

There there was the question of debt. The general consensus was that AltaGas overpaid and took on too much debt to finance the deal. The company would have to shed some assets to bring is debt burden to more respectable levels.

Where are we today?

On July 3, AltaGas received the final regulatory approval from the D.C. Public Service Commission; t he deal closed on July 6. With this uncertainty behind them, AltaGas can now focus on synergies and on reducing its debt load.

Once integrated, earnings before interest, taxes, depreciation, and amortization (EBITDA) for its U.S. operations is expected to double. Enterprise-wide, EBITDA is expected to increase by 25% to 30%. AltaGas currently trades at an enterprise value (EV) to EBITDA of 11.22, below the industry average. A word of caution, however; this is somewhat misleading as it does not take into account the impact of the acquisition

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Upon closing the WGL deal, AltaGas announced it has an enterprise value of $17 billion. Let's assume EBITDA rises by 27.5% from 2017 levels, the mid-point of the company's guidance. In 2017, the company generated $797 million in EBITDA. As a result, the new EV/EBITDA ratio would now be 16.73. Based on this metric, the company is fully valued.

Rising dividend

One of the most attractive aspects of the company is its dividend. Is AltaGas' 8% yield safe? At the moment, yes. The company's current dividend is well covered by funds from operations (FFO). Likewise, the WGL acquisition is expected to be accretive to FFO by approximately 20%. This is expected to support dividend growth of 8% to 10% through 2021.

AltaGas is now well positioned to finally move the needle forward. However, the company still needs to do something about its debt load. How? It is expected to attack its debt through more asset sales.
In the meantime, the company is only trading at a 5% discount to analysts' one-year estimates. It has a forward price-to-earnings (P/E) ratio of 20.22 and its P/E to growth (PEG) ratio is 2.02. Combined with its aforementioned EV/EBITDA ratio of 16.73, the company appears fully valued.

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