



AltaGas Ltd. (TSX:ALA) Stock +12% Pullback: Time to Buy?

Description

After pulling back more than 12% from the \$29-per-share level, it's a decent place to consider some **AltaGas** ([TSX:ALA](#)) stock for [juicy income](#). At the recent quotation of about \$25.50 per share, AltaGas offers an above-average dividend yield of 8.6%.

Recent results

Last week AltaGas reported its second-quarter results with normalized EBITDA of \$166 million and normalized funds from operations of \$121 million, which were consistent with 2017. However, the stock is +10% lower than it was a year ago.

2018 guidance

Management maintained its outlook for 2018 and expects normalized EBITDA to grow 25-30% and normalized funds from operations to grow 15-20% with the contributions from the WGL Holdings acquisition.

This year AltaGas plans to invest \$1-1.3 billion, with about 85% of the investment going to its midstream and utilities businesses.



The business

With the addition of WGL, AltaGas now generates about 75% of its normalized EBITDA from the United States and about 25% from Canada, while about 80% of its normalized EBITDA have medium- and long-term agreements, which should help stabilize the energy infrastructure's EBITDA.

AltaGas transacts about two billion cubic feet of natural gas per day, has about 1,930 MW of power generation capacity (65% powered by gas, 14% by hydro, 6% by wind), has a utility rate base of about \$5 billion with roughly 1.8 million customers across eight provinces and states.

By 2019, AltaGas forecasts to generate about 27-32% of its normalized EBITDA from its natural gas midstream business (that generates largely fee or take-or-pay cash flow), about 25-30% from its power business (that generates largely contracted cash flow), and about 40-45% from its utility business (that generates regulated cash flow).

Going forward

Management sees \$6 billion of growth opportunities, of which about 75% is secured. These growth opportunities lead to visible growth that allows AltaGas to increase its dividend from 2019 to 2021. It's unclear whether the dividend will be raised this year, as the company is digesting the WGL acquisition.

AltaGas doesn't just rely on WGL for growth; it continues to work on a number of projects and expects the Central Penn Pipeline to be going into service this quarter and the Mountain Valley Pipeline to be online in the first quarter of 2019. It's also making significant progress on its Ridley Island Propane Export Terminal.

Investor takeaway

[AltaGas offers a high yield](#) of about 8.6%. Its dividend is supported by a 50-60% funds from operations payout ratio. It's uncommon to find companies with such big yields and growth potential. However, after the +12% pullback, it's a good time to consider the stock if it makes a good fit for your diversified portfolio.

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