A High-Yield Canadian Dividend Stock for Bargain Hunters

Description

Once in a while, a stock pullback goes a bit overboard, and that can provide contrarian investors with attractive buying opportunities in companies that pay impressive dividends.

Let's take a look at **AltaGas** (TSX:ALA) to see if it deserves to be on your buy list.

Out of favour

AltaGas recently completed its $9 billion takeover of Washington, D.C.-based WGL Holdings. The deal wasn't popular with analysts right from the day it was announced, and the stock continues to struggle as the market waits to see how AltaGas is going to sort out some balance sheet concerns.

The company took a US$2.3 billion bridge loan to close the WGL purchase and is shopping non-core businesses to help pay it off. Earlier attempts to find buyers for some assets in the U.S. didn't pan out, so it makes sense that the market is in "show-me" mode.

In addition, the company's CEO unexpectedly resigned in late July. Founder and Chairman David Cornhill and board member Phillip Knoll are running the business until a new CEO is hired.

Growth

On the positive side, AltaGas expects the Central Penn and Mountain Valley pipelines to go into service in Q3 2018 and Q1 2019, respectively. In addition, the Ridley Island Propane Export Terminal is nearing completion and should begin operations early next year.

Over the next four years, AltaGas has $6 billion in development projects in sight, with $4.5 billion secured. The utility businesses are expected to see the rate base increase from $5 billion to $7 billion through 2021.

Dividends

Revenue and cash flow should rise as the new assets go into service, providing support for the dividend. As such, the current monthly payout of $0.1825 per share looks safe and generates an annualized yield of 8.6%.

Should you buy?

Once the asset sales are complete and the bridge loan is paid off, the market should start to feel more comfortable with the stock. The exit of the CEO who put the WGL deal together was unexpected, but the interim leadership team is more than capable of running the business, and a new CEO will likely be confirmed in the coming months.

The company anticipates significant 2018 growth in funds from operations and in normalized EBITDA compared to last year as a result of the WGL acquisition, a full-year of revenue from the Townsend 2A and North Pine projects completed in late 2017, and improved volumes and pricing in ongoing businesses.

With a robust capital program set for the next four years, investors could see ongoing dividend increases.

The stock trades for about $25.25 per share. A year ago, AltaGas fetched close to $28 and was above $50 per share at one point in 2014, so there is some nice upside potential, and you get paid well to wait. It's a contrarian play, but I think AltaGas is attractive today.

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aswalker