Will You Buy This Underpriced Stock for a Nice Dividend?

Description

Since **AltaGas** (TSX:ALA) announced the abrupt resignation of President and CEO David Harris in late July, the stock has retreated about 7.7%. For now, David Cornhill, founder and chairman of AltaGas, and Phillip Knoll, an experienced industry veteran and board member, will act as co-CEOs for the energy infrastructure and utility company until a suitable replacement for the CEO is found.

The day after the resignation, AltaGas added three new directors to the board, who bring extensive knowledge and experience to the company. Among them was Terry McCallister, former chairman and CEO of WGL from October 2009 to July 2018.

You may recall that AltaGas closed the acquisition of WGL in July. At one point, management estimated that WGL will be accretive to earnings per share by 8-10% and funds from operations per share by 15-20% on average through 2021. This should allow for dividend growth from 2019-2021.

AltaGas is a diversified business

AltaGas' long-term goal is to have a balanced portfolio of utility, power, and midstream assets — roughly a third in each. On top of the addition of WGL, AltaGas plans to sell some assets, as well as invest in or develop and construct new projects.

As a result, AltaGas's business mix is expected to be about 40-45% utilities based on normalized

EBITDA contribution, about 25-30% power, and about 27-32% midstream by 2019.

Currently, AltaGas has about 1,930 MW of power generation capacity diversified across 20 states and provinces. It also delivers natural gas to customers over eight states and provinces.

How much can AltaGas increase its dividend?

AltaGas's power assets have a weighted average contract life of about 14 years. AltaGas also generates regulated cash flow from its utility assets and fee-based or take-or-pay cash flow from its midstream assets. Altogether, roughly 80% of AltaGas's normalized EBITDA are contracted with medium- and long-term agreements.

When the WGL acquisition was still in the works, management estimated that AltaGas could grow its dividend per share by 8-10% per year from 2019-2021. However, because there are so many moving parts, it would be more conservative to assume a dividend growth rate of, say, 3%.

Investor takeaway

At the recent quotation of $24.61 per share, AltaGas already offers a huge dividend yield of 8.9%, yet management believes dividend growth is in the cards for 2019-2021.

Assuming a conservative dividend growth rate of 3%, an investment in AltaGas right now can deliver long-term returns of about 12%. This estimate does not account for the fact that the stock has dipped to discounted levels with the **Thomson Reuters** analysts' 12-month mean target of $28.80 per share, which represents 17% near-term upside potential.

The appointment of a new CEO could be the trigger to propel the stock in the upward direction again.

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