



This Dividend Growth Stock May Cut its Dividend

Description

It's been a rough go for shareholders of **AltaGas** ([TSX:ALA](#)). Burdened by the significant debtload it undertook to acquire WGL Holdings, its share price has [been in a steady downtrend](#). Over the past two years, investors have seen their investment lose almost 40% of its value. It hasn't gotten any better this year, as its share price is now down 32% in 2018.

What's the issue? Well, AltaGas hasn't been able to deleverage as quickly as anticipated. In order to accelerate debt-repayments, the company spun-off its certain Canadian assets into a new publicly-traded company. The move reeked of desperation and the IPO came in below expectations.

On Tuesday, AltaGas announced its third-quarter result. Is there [reason for investor optimism](#)? Let's take a look.

Missed estimates

Unfortunately, AltaGas failed to deliver. The company posted a net loss of \$0.07 per share, which was below analysts' estimates for net income of \$0.05 per share. Likewise, revenues of \$1.041 billion came up short of the \$1.18 billion consensus.

At the heart of the issue is the weaker than expected gains from the WGL acquisition, which closed in July. The company pointed to a weakness in seasonality of WGL earnings and the delays to the Central Penn Pipeline in-service date, a key growth project.

It wasn't all bad news, however. The company recorded record quarterly funds from operations (FFO) of \$117 million and is ahead of its debt-repayment plan. As of the end of the quarter, the company had announced \$2.4 billion in asset sales, \$400 million above its initial target.

New framework

Along with third quarter results, the company announced a new framework for a Balanced Funding Plan. The company sees plenty of opportunity for growth in the U.S. and intends to take a balanced approach to fund capital projects. At the end of the date, its goal is to maintain an investment grade

credit rating. This is welcome news for investors, as its credit rating had been impacted by the WGL acquisition.

It also announced its intention to dispose of an additional \$1.5 to \$2.0 billion of assets. Full 2019 guidance is expected by end of year.

The dividend

Now that AltaGas has reported almost a full quarter of WGL integration, investors have a better idea on the safety of its dividend. It's not good.

For starters, the company has suspended its dividend reinvestment plan (DRIP). Although this will help, it is but a short-term solution. The biggest concern is that third-quarter dividends accounted for 122% of FFO on a per share basis. This is a significant red flag. Of note, the company's dividend policy aims for a payout ratio between 50-60%.

The company also guided FFO downwards. In the second quarter, the company estimated the FFO would grow by 26%. The company appears to have over-estimated FFO growth and guided to only 10% growth to end the year. Not only did the company not raise dividends, but the safety of its current dividend is now in question.

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