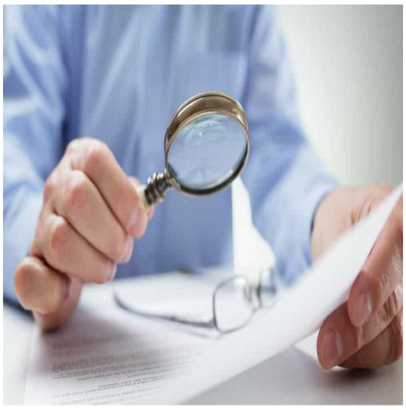

What Will You Do With AltaGas Ltd. (TSX:ALA) Stock?

Description

AltaGas (TSX:ALA) has been a horrible investment. The stock has lost about half of its value in the last 12 months. However, the stock has actually been in a downward trend since its peak in 2014. From the peak, the stock has fallen about 66%.

That said, the company is very different from it was in 2014, and its uncertainty has increased.

AltaGas recently began its acquisition of WGL Holdings, which had key assets that deliver natural gas to more than one million customers throughout Washington, D.C. The acquisition took longer than expected to complete, which cost AltaGas money without any returns in the interim.

For example, AltaGas raised gross proceeds of about $2.6 billion in February 2017 from issuing subscription receipts, which eventually turned into common stock that could be dilutive to existing shareholders. For the subscription receipts, the company paid out about $147.84 million as dividend-equivalent payments last year.

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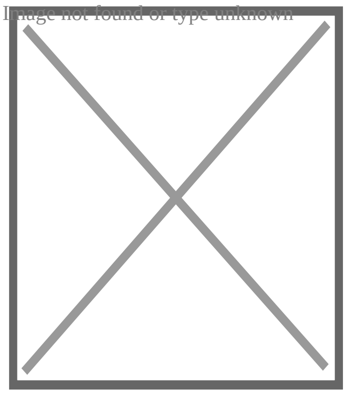

The WGL acquisition was actually humongous as a roughly $9 billion transaction. When it was finally completed in July, AltaGas stock traded as high as $28 per share. But then, problems started rearing their ugly heads.

Whether or not it was a coincidence, the former CEO, David Harris, resigned as president and CEO soon after the closing of the WGL acquisition. In September, AltaGas began selling what it called its non-core assets, including midstream and power assets.

In late October, AltaGas successfully spun off its Canadian assets, including utilities and certain power assets. AltaGas holds 36-45% of the spun-off company. All of the selling is intended to raise funds to pay off the WGL acquisition, such as the bridging facility used for the acquisition.

What this all means

AltaGas has been selling assets to repay the debt it borrowed to fund the WGL acquisition. The reduction in assets will lead to reduced cash flow generation.

Additionally, with the WGL acquisition and the sale of much of its Canadian assets, AltaGas is betting that the U.S. utility environment will be better than the environment in Canada. Even though that may very well turn out to be true, AltaGas's overpayment for WGL will take time for the company to recover.

Is the over 14% yield safe?

Although AltaGas has been putting new projects into service, the reduction in cash flow from asset sales has been a much bigger impact, which increases the risk of its dividend being cut. That's why the stock has fallen so much that the yield has been pushed to 14.34% as of writing. From the price action, the market is signaling a future dividend cut of about a half to match the yields of AltaGas' peers.

Investor takeaway

Although many of AltaGas' energy infrastructure and utility peers have experienced weak price action in the last year, none have done nearly as poorly as AltaGas.

The stock is trading at close to the low of the financial crisis level of 2009, but given that it has increased uncertainties with regard to its cash flow generation, it'd be safer not to buy more of the stock if you already own it. AltaGas has turnaround potential. So, patient shareholders can hold on to the stock.

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