# This Stock Is Trading at Levels Not Seen Since the Great Recession, But Don't Get Caught Holding the Bag

### Description

The Canadian energy sector has provided its fair share of "value" picks for enterprising investors recently. For some oil and gas producers such as **AltaGas** (TSX:ALA), the last time companies traded at such levels was near the bottom of the Great Recession — what seems like a lifetime ago for many millennial investors.



I wrote "Why AltaGas Ltd. Will Cut its Dividend" approximately one week before AltaGas announced its massive dividend cut of just less than 60% (I suggested in the article a cut of up to 75% could be warranted, given how sharply the company's share price had fallen). Immediately following the dividend cut, sentiment surrounding AltaGas became decidedly more bullish; however, the company's share price has stagnated over the past month and is now trading at similar levels to what AltaGas was trading at before the company cut its dividend.

In the wake of the dividend cut, let's assess whether AltaGas is really a value play at these levels.

## Fundamentals

Looking at the numbers, AltaGas certainly leaves a lot to be desired. Despite dropping from a peak of more than $50 in 2014 to recent lows below $12, the company's TTM price-to-earnings (P/E) ratio, perhaps the most commonly used valuation metric, remains above 50.

The company's return on assets, return on equity, and return on invested capital, three of the most important metrics for investors concerned about investment return and safety, are negative.

AltaGas's operating margin and net margin are both hovering around -20%, and while a decrease in the discount Western Canadian producers receive for their oil is likely to help, seeing this margin rebound to health (positive) double-digit levels is unlikely in the near term.

Deep-value investors may notice that the company is trading significantly below book value at roughly

70% of the estimated value of the company's assets. Due to recent divestitures by AltaGas, the market may be pricing in additional divestitures, meaning the worst may be yet to come for AltaGas shareholders.

## Debt

The company's focus on becoming a "global" player in the oil and gas space and diversifying operations into the United States has come at a dear price.

As a result of the decision of AltaGas's management team to take over WGL Holdings, the company now carries more than $10 billion of debt on its balance sheet. Getting larger and growing into new markets is great when cash flows are increasing; however, it appears in this current environment (where AltaGas remains in a negative cash flow state), adding on additional capital expenditures, with the potential for more aggressive capital layout needs in the future may not bode well for investors concerned about solvency and debt-related issues, given the point we're at in the economic cycle today.

## Bottom line

Despite AltaGas's recent halving of its dividend, concerns remain about the fundamental strength of the company in an economic time which is anything but rock solid. With investors likely to steer clear of commodity plays with significant debt loads, I would be careful with attempting to catch this falling knife.



Stay Foolish, my friends.

**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. TSX:ALA (AltaGas Ltd.)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**Tags**

1. Editor's Choice

**Date**
2025/08/26
**Date Created**
2019/01/28
**Author**
chrismacdonald