Don't Buy This Turnaround Story for Passive Income

Description

Owning **Altagas Ltd.** (TSX:ALA) has been a losing proposition for quite some time now. For a long time, people were buying Altagas for its dividend until it ultimately decided to slash its dividend by 56% last December. While this was probably the best decision from the company to conserve cash and pay down debt, it did hit income investors hard.

Even after the cut, the company still pays a current yield of around 5%. The yield is most likely healthy at the new level, but as is usually the case in these situations, burned investors are wondering whether a cut can happen again, as it's already happened once. Furthermore, they need to consider whether owning Altagas at these levels is preferable to owning another utility that may have a more stable dividend growth trajectory.

At the moment, the idea of owning a utility that's already cut its dividend is very unappealing to me. There are numerous other companies in the space, like **Fortis Inc.** (TSX:FTS)(NYSE:FTS) or the more comparable **Enbridge Inc.**(TSX:ENB)(NYSE:ENB) with better dividends, more diversification, and comparable business models.

Fortis' dividend, for example, is smaller at 3.59%, but it has decades of growth behind it. Enbridge also has a strong track record for dividend growth and clocks in at just under 6%. In many ways, these companies are far superior to the beleaguered Altagas.

I suppose the main reason for purchasing Altagas would be as a turnaround story. There is some evidence that investors have been pleased with the capital allocation program. The shares bounced around 16% when the news was announced and are still working their way higher.

Its debt was a major contributing factor to the company's declining share price and reduced dividend, so it's nice to see it focus on debt repayment. Altagas' $4.94 billion budget for 2019 was primarily aimed at debt reduction, which is a step in the right direction.

The strategy of reducing the dividend and paying down debt appears to be working. In the first quarter of 2019, the first quarter since the dividend was cut, Altagas reduced its net debt by about $1.7 billion. It also increased its normalized EBITDA by 109% over the first quarter of 2018. Altagas also increased its normalized funds from operations (FFO) by 122% year over year. These are positive numbers that seem to indicate the turnaround is taking hold.

Should you buy Altagas today?

If you are interested in Altagas as an income play, I would probably stay away from it and focus on a larger utility with a more established dividend. As much as it's making good choices in pursuit of a turnaround, I am simply turned off by companies, especially utilities, which slash their dividends. Was it the right thing to do? Certainly. Paying down the debt is extremely important as well, but I prefer dividend growers.

If you like turnaround stories and want to get paid to wait, then you could probably take a chance on this stock. At this level the dividend is likely safe, so you'll get paid a nice 5% yield until a turnaround takes hold. But if you're looking for income, there are better places invest.

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