



Latest AltaGas (TSX:ALA) U.S. Deal Is a Positive on This Recent Canadian IPO

Description

The good news on Monday was that energy infrastructure giant **AltaGas** ([TSX:ALA](#)) is on track to realize one of its strategic financial targets for 2019 after entering a sale agreement with **TerraForm Power** for the disposal of some power-generation assets for \$940 million.

The company has been under pressure to liquidate some of its assets after an overly ambitious \$9 billion acquisition of WGL Holdings in 2018 severely stretched its financial position, and management is all out to repair the balance through non-core asset sales, which are targeted to raise between \$1.5 billion and \$2 billion in cash proceeds before the end of this year.

We are just a few weeks past the mid-year mark, but AltaGas is almost close to achieving the low end of its strategic asset sales target for 2019.

The latest transaction brings the total value of assets disposed or announced for sale so far in the 2019 program to \$1.3 billion after an earlier disposal of an interest in Stonewall Gas Gathering Systems for \$379 million was concluded this year. Just \$200 million more is needed to reach the annual target.

This is some good news for AltaGas but may be a good piece for another related recently listed stock, too.

Recent IPO de-risked?

The company spun-off some Canadian assets through separately listing **AltaGas Canada** (TSX:ACI) late last year, but it retained a 45% stake with a one-year lock-up period that is set to expire in October.

Further, ALA has a right to pare down its position to just 30% in ACI and still retain all its current board representation. Hence, there has always been the risk that the troubled energy giant could simply decide to offload a significant chunk of ACI stock on the open market after October in an effort to bolster its cash position.

Any continued liquidity challenges on the old parent company poses a significant valuation threat to the new IPO's stock, as the sudden flood of shares on the market could put downward pressure on the share price and wipe away a portion of the impressive +60% capital gains accumulated on the ticker so far this year.

It's somehow relaxing that the bigger AltaGas has decided to dispose some U.S. generating assets from subsidiaries WGL Energy Systems and WGSW Inc. for now, bringing it closer to its annual disposals target instead. There's a much better chance that the ACI position may be held for much longer.

That said, it's too early to downplay the risk of a selling pressure on the recent IPO yet. October is still some months away, and we can't be sure of the institutional investor's plans yet. ALA could still go ahead and liquidate a portion of its position on the currently hot ticker.

No worries either way

After all, investors may need not worry much about a selling pressure, even if AltaGas were to suddenly dispose of its ACI position later this year. The former parent's executives have an interest in getting the best price for the shares too, so arrangements could be made to sell some stake to another institutional buyer and avoid a direct market disposal.

Even if ALA were to sell in the direct market, there will be some positives to that, too. The Canadian AltaGas is a [solid income generator that has some impressive dividend-growth potential](#), holds significantly high-quality cash-generating assets, and has a largely self-funded growth projects pipeline that could move the needle.

Any potential weakness in the share price would be a welcome buying opportunity for investors looking for a good entry point on a reliable dividend-growth generator.

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