



Is AltaGas (TSX:ALA) a Top Dividend Stock?

Description

Fool me once, shame on you; fool me twice, shame on me. The saying is relevant when talking **AltaGas** ([TSX:ALA](#)) and its dividend. At first glance, the company's 5% yield looks attractive. Is it sustainable?

AltaGas was once a Canadian Dividend Aristocrat with a six-year dividend growth streak. Unfortunately, despite reassurances from management that its dividend was sustainable, the company slashed its dividend by 56% in mid-December of 2018.

After only days of taking over as CEO, it was a tough call for Randy Crawford to make. It was however, the right one. A yield in the mid-teens is not sustainable, even less so in an industry that requires significant capital expenditures.

Crawford wants *"to adopt a self-funding model that emphasizes debt retirement, less reliance on equity markets to raise capital and more control over its assets by "consolidating" minority stakes in projects."*

That's a perfectly reasonable strategy. Almost a year later, things are looking up for the company. In 2019, AltaGas was one of the [best-performing energy stocks](#), up 35.76% in 2019. Before the recent volatility, it was up almost 50% this year.

Safety of the dividend

Despite a significant run-up in share price, AltaGas is still an attractive income play. As a shareholder myself, I understand the pain suffered by income investors after the company slashed its dividend.

The WGL Acquisition was supposed to support further dividend growth, not result in a dividend cut.

Looking forward however, the [dividend appears stable](#). The WGL deal saddled the company with a mountain of debt under which it could not successfully climb out from under without a change in strategy.

With more cash now available, it has reduced net debt by \$2 billion through the first half of the year and is on track hit \$3 billion in debt reduction by end of year.

That alone is a positive for the dividend.

At the mid-range of guidance, the company expects to generate \$800 million in normalized adjusted funds from operations (AFFO).

Assuming the dividend rate remains consistent through the balance of the year and no new shares are issued, the dividend will account for only 33% of normalized AFFO.

This is by no means a guarantee that the dividend is safe, however. Before the December cut, AFFO was enough to cover the dividend at that time. The problem however, was that it sucked up too much cash and as such, it had little left over for debt reduction.

Re-setting the rate was thus a wise move.

Is AltaGas a top dividend stock? Not quite. Although the yield is attractive, I don't expect the company to raise its dividend any time soon.

It still has over \$8 billion in debt and has debt-to-EBITDA ratio of 5.5 times. Until the company can materially reduce its debt, I expect the dividend to remain steady.

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