This Dividend Stock Is Still Dividing Energy Investors

Description

Fossil fuels may not seem like the most lucrative area for investment at the moment, but if your energy portfolio is light on Canadian oil and gas, then there's at least one ticker to add to your shopping basket.

default watermark

Today, that stock is **AltaGas** (TSX:ALA), a sometimes overlooked fuel play that could complement a careful energy investment strategy. However, pundits are still divided on its quality, so let's delve into the data before making a thesis.

A divisive stock for a diversified energy portfolio

A 5.06% yield puts AltaGas ahead of some other stocks in this space and qualifies it as a fairly high-yielding investment. It's also pretty good value for money compared with other stocks in the Canadian oil and gas space and trades just below its book value.

In terms of future growth, however, investors looking for an increasing market share or big wins in the earnings department may want to look elsewhere.

This lack of upward momentum is one of the reasons why AltaGas gets skipped over by some Canadian investors. The other big sticking point, though, is its balance sheet.

Granted, AltaGas has stepped up its game by reducing debt in the past 12 months, with around $2,000 million knocked off its liabilities, plus an expected lightening of assets by a further $2,000 million underway thanks to strategic sales agreements.

Is a rich yield enough to reward risk-taking investors?

While a new and improved balance sheet looks great on paper, investors may want to read between the lines: piling that amount of cash into the servicing of debt logically reduces working capital.

While the company does have good credit (in other words, there's more potential debt where that came from), investors will have to weigh the risk of reduced maneuverability coming right at a time when an increasingly treacherous global market might require it the most.

The initiation of the RIPET terminal project back in May goes some way towards a buy signal for AltaGas stock, with the Asian connection adding some geographical diversification and may tempt buyers looking for positive plays in the somewhat ruptured North American-Asian trade space. Some upward momentum this year goes some way towards reversing December's decline.

In short, AltaGas is a stock on the mend, though investors will have to weigh whether these efforts are enough ahead of a possible market correction. The best strategy might be to go long on AltaGas and bet on the eventual boost that the RIPET terminal will give to the company's bottom line.

The reason for this is that returns from the NGL terminal might not come through for some time, with cash from the Asian shipments improving the company's fortunes around the 2020/2021 mark. This means that new investors would have to brave it out through a potentially severe correction and would have to be very bullish on the venture.

The bottom line

default watermark

While renewable energy is set to be one of the fastest-growing asset classes in the near future, there is still some upside to be squeezed from so-called traditional fuel sources. Oil and natural gas stocks haven't had the greatest positive momentum of late, though there are still some long-term plays here that are worth adding to a dividend portfolio.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

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

4. Stocks for Beginners

Date
2025/07/07
Date Created
2019/08/20
Author
vhetherington

default watermark

default watermark