AltaGas (TSX:ALA) Exceeds a Key 2019 Target: Buy This Related Stock in October

Description

Energy infrastructure giant **AltaGas**'s (TSX:ALA) recently announced $870 billion sale of its interest in the Central Penn Pipeline will not only exceed the company's previously announced asset sales budget for 2019 and improve the company's financial flexibility, but it will further de-risk **AltaGas Canada**'s (TSX:ACI) stock going forward.

As previously discussed in July, when the former parent company announced a $940 million asset sale, AltaGas Canada's shares have been faced with a potentially significant selling pressure from October when the former parent's lock-up period on its 45% interest in the stock expires during the month.

AltaGas's Monday announcement of a sale of its minority non-operated interest in the Central Penn Pipeline brings the company's total announced and concluded 2019 asset sales to $2.2 billion to exceed the upper end of the company's $1.5-$2.0 billion asset sales budget for 2019.

A troubled ALA is selling the asset from its U.S. subsidiary WGL Midstream's portfolio to a strategic investor Meade Pipeline Investment LLC at respectable valuation multiples of 13X 2019 cash flow and 16.85X 2019 normalized EBITDA.

I'm glad that ALA management seemingly determined that the ACI stake is much more valuable as a long-term investment and dividend growth machine than the pipeline interest.

It decided not to partially dispose the company's position in the 2018 spinoff, even if they could pare it down to 30% without any consequences to their voting influence in the well managed and growing Canadian income-generating machine.

Management at ACI showed its strong commitment to make the company a reliable dividend growth stock with a 9.5% increase to its well covered quarterly dividend in August.

This was the second time the company has increased its quarterly dividend during its very short public lifetime after a 36% increase to $0.24 per share was effected for the March 2019 payout.

The company announced a 40% upsized five-year capital investment program for the 2019 to 2023 period to a range of $425-500 million, up from $330 million previously, which will enhance growth in normalized income and support future dividend increases.

The budget will be self-funded, so there aren't any fears of increased leverage and shareholder dilution. The larger AltaGas evidently wants to remain a part of the good growth operation that it was forced by circumstances to partially exit.

Foolish bottom line

We can't be sure whether ACI stock is totally safe from a significant sale by the parent, but ALA's balance sheet will look healthier and comfortingly de-levered when the latest transaction closes during the fourth quarter of this year. Management has successfully executed on its non-core asset sales strategy in 2019.

That said, it's relatively much safer to discount the sales risk on AltaGas Canada stock further and focus on the emerging income investment success story going forward.

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