



Altagas Ltd. (TSX:ALA): A Top Dividend Stock That Remains Oversold Today

Description

Altagas Ltd. ([TSX:ALA](#)) remains oversold today. With a dividend yield of over 5%, rapidly falling debt levels, and steadily rising EBITDA, this company is in the process of de-risking. This is making the stock's valuation more and more attractive, as it still trades at levels that signify risk.

Asset sales spur debt reduction – is a dividend increase coming?

Altagas has been working hard to sell certain non-core assets in order to focus the business and strengthen its balance sheet by using the proceeds to [reduce its heavy debtload](#).

The focus of Altagas going forward will on delivering stable long-term cash flows while also providing growth through its exposure to some of the fastest-growing energy markets in North America.

Stable cash flows come from the utilities segment, which provides predictable and regulated returns, and currently accounts for 33% of the company's total EBITDA.

Growth comes from the company's exposure to the Montney and Marcellus/Utica basins, but even in these growth areas, we have a measure of stability, as evidenced by the fact that 75% of EBITDA is backed by medium- to long-term contracts.

Management's 2019 target to reduce debt by \$1.5 to \$2 billion was laid out earlier in the year, and at this point, the company is already ahead of its initial plan.

Total asset sales so far this year have totalled \$2.2 billion, with the latest sale being Altagas' approximately 20% indirect and non-operating interest in the Central Penn pipeline for \$870 million.

This is the sale that has taken Altagas above its targeted asset sale range, which should drive confidence in the company and the stock.

We can expect more of the same going forward, and this, coupled with strong cash flows, will enable

the company to continue to make good progress on its debt reduction plans.

In fact, management expects to pay down \$3 billion of debt in 2019 and to end the year with a net debt to EBITDA ratio of less than 5.5 times, which is much lower than its recent history.

Given this progress, we can reasonably expect management to start thinking about putting an end to its DRIP program, which will put a stop to the resulting dilution as well as dividend increases.

Defensive attributes to serve as a catalyst for strong stock price performance

Coupled with the company-specific improvements that we are seeing, [we can also expect Altagas stock to rally simply based on the company's defensive attributes](#). As an energy infrastructure company with more than \$10 billion of assets in natural gas extraction and processing, and storage, the utilities that deliver natural gas to homes and businesses, and power assets including biomass and solar assets, Altagas' businesses are an essential part of all of our lives, rendering it immune to the ups and downs of economic cycles.

This can and will go a long way in today's environment, where we are seeing an increasingly shaky economic growth situation and an increasingly shaky investor appetite for risk.

Foolish bottom line

Altagas stock remains oversold today, and with an improving risk profile, a strengthening market position, and a generous dividend yield of more than 5%, it remains a top stock to buy today.

Recent weakness in the stock (down approximately 9% from July highs) means that investors have another solid opportunity to get into the name today.

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