Can Altagas (TSX:ALA) Stock Double Your Money?

Description

It's always nice to get into a stock that ends up doubling your money. In our constant search for such a stock, we don't want to take on too much risk to get there, which makes **Altagas Ltd**. (TSX:ALA) stock all the more compelling today as a stock that can double your money without taking on too much risk.

Altagas has soared 42% year to date, but don't let this fool you into thinking that another 100% upside isn't possible. The stock remains very attractively valued and is still trading 41% lower than three years ago despite a very steady and stable business with exposure to some of the fastest-growing energy markets in North America.

At the end of the month, Altagas will be reporting third-quarter results. Estimates have been on the rise lately, which is always a good sign for a company and its stock price.

For Altagas, these upward revisions result from the company's asset sale plan moving ahead on target, its debt reduction plan moving ahead on target, and the possibility that the Dividend Reinvestment (DRIP) program will by turned off, stopping dilution.

Asset sales driving value

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 sale has taken Altagas above its targeted asset sale range and should drive confidence in the company and the stock.

Debt reduction driving value

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.

With debt reduction taking hold, interest payments on the decline, and a better operating cash flow outlook, Altagas can start to seriously consider terminating the DRIP program.

As a reminder, the DRIP program has been key to Altagas maintaining its balance sheet and dividend payments at a time when the extra cash flow from this reinvestment was badly needed.

After the company's recent dividend cut, the company's free cash flows after dividends have recovered to healthy levels. The payout ratio is well under control at 46%, and Altagas can move forward in the knowledge that their financial obligations are well covered by cash flows and earnings.

Stable income with exposure to growth driving value

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, making it insensitive to the ups and downs of economic cycles.

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 is evidenced by the 75% of EBITDA is backed by medium to long-term contracts.

Foolish final thoughts

The company continues to make progress on this strategy, driving value for the stock and its shareholders.

In the coming year, we can expect these changes to drive an increase in its credit rating, a termination of the DRIP program, and ultimately, a dividend increase. All of these things will take Altagas stock much higher, and I can easily see that it could double your money.

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