



AltaGas (TSX:ALA) Is Looking like the Perfect Long-Term Stock

Description

Deciding whether to buy a stock, especially one with lots of interest from the market, can be difficult. It's arguably much easier to buy a lesser-known stock, because you know the discount probably exists because of the lack of exposure the stock gets in the media.

With well-known companies though, everybody knows about them, and so the price you see is a clear reflection of what the entire market thinks about that stock.

This makes investing in those stocks that much more difficult because you have to really believe the market has missed something and is wrong about the views of the company.

AltaGas ([TSX:ALA](#)) is one of those stocks. It's one of the most popular stocks on the TSX, so any change in sentiment immediately gets factored into the price.

It operates through three segments, midstream, power, and utilities. Roughly half of its operating cash flow comes from utilities though, with another significant share coming from its midstream segment. Its power segment is by far the smallest portion of its business.

Past performance

[AltaGas](#) has been in restructuring mode lately, reducing debt and trying to strengthen its operations.

Part of its restructuring has been to sell non-core assets to strengthen its capital position. This is a prudent move by AltaGas and signals its commitment to long-term management and value creation.

It's extremely important that AltaGas can also reduce its debt and therefore improve its interest and debt-coverage ratios, which have been getting dangerously low.

The asset sales so far this year have been roughly \$1.3 billion, so the company is ahead of its 2019 target of asset sales between \$1.5 billion and \$2 billion.

The newly strengthened company now has more capital flexibility and the ability to pay down roughly \$2 billion in debt this year, on top of the debt that's maturing and the capital projects it has underway.

It needs to execute the restructuring to strengthen its core operations and ultimately improve profitability both on its bottom line but also from an operating point of view such as its earnings before interest, taxes, depreciation, and amortization (EBITDA).

Growth projects

Its growth opportunities are exciting, especially its Ridley Island Propane Export Terminal (RIPET), which will be huge for both AltaGas as well as all of Western Canada.

The terminal was built to give Canadian gas producers exposure to export markets primarily in Asia, as the demand for energy continues to grow. The terminal was finished in the second quarter, and the company has already begun exporting to Asia.

It's an ideal project because it brings higher net backs to Canadian producers while reducing the transportation time to Asia that would be present if the shipment was coming from the United States.

Financials and valuation

Looking at its past valuation, the company has been a little overvalued and remains there today. This doesn't necessarily mean the share price has to come down though, but rather the company just needs to increase its profitability and operating numbers, which would then give AltaGas a much better valuation.

Looking at its enterprise value to EBITDA, it still seems kind of high, but that will decrease as either the company can manage to increase EBITDA or when it decreases its net debt, which would bring down the enterprise value.

The company pays a [dividend](#), which yields 5.2% — an attractive dividend especially for a utilities company.

Bottom line

All in all, AltaGas has its work cut out for it, but assuming it can execute its restructuring plans and with the growth opportunities it has, such as the RIPET, which will bring major sales, the stock is an ideal hold for long-term investors that need or want exposure to the utilities industry.

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