



Canadian Investors: You Can't Miss This Great Dividend Stock

Description

The regulated utility and midstream company **AltaGas** ([TSX:ALA](#)) stock has had a strong start to 2020. It is up more than 12% so far this year. Though the stock is currently trading at its 52-week high at the moment, I think it still has a long way to go.

Stable earnings profile

AltaGas has a solid combination of natural gas transportation and distribution operations. It mainly operates through three segments: midstream, utilities, and power. The company's utilities segment serves more than 1.6 million customers. While the utilities segment accounts for approximately half of its total earnings, the power segment contributes a small portion. Thus, higher exposure to regulated utility operations makes its earnings as well as dividends relatively stable.

AltaGas stock is currently trading at a dividend yield of 4.5%, notably higher than that of broader markets. The company pays dividends monthly, which last year accumulated to \$1.04 per share. While some might have disliked its dividend cut last year, I think the stock is poised for stable dividends once again.

For the nine months ended September 30, 2019, AltaGas's payout ratio exceeded 100%, which is not sustainable in the long term. However, higher expected earnings in 2020 could make things look good again. The payout ratio is the portion of the company's earnings shared with its shareholders in the form of dividends.

AltaGas in 2020

Along with a passive income, AltaGas stock looks attractive for capital appreciation for the future as well. According to the management's guidance for 2020, the company will likely grow more than 15% year over year.

The company intends to invest \$900 million in capital projects in 2020, which is lower than the last

year. However, given a strong dividend yield and a handsome earnings growth, [AltaGas could be an attractive pick for a robust total return](#) this year.

AltaGas stock has been rallying for a couple of months now. It has returned more than 45% in the last 12 months, including dividends. Thus, some profit booking might create downward pressure on the stock in the short term. However, it does not look expensive at the moment. [AltaGas stock](#) is trading at a forward P/E of 17.5 times, which is lower than its historical average valuation. Thus, based on the valuation front as well, the stock seems to have some run-up left.

Improving balance sheet

Another factor that long-term investors could like in AltaGas is its improving balance sheet. Utilities is generally an asset-heavy business, and thus, they carry a large amount of debt. AltaGas has been selling its less-efficient assets to pay back its debt for the last few years. In 2019, the company paid back around \$3 billion of debt. Its improving balance sheet will likely enable future credit access at relatively better terms, which bodes well for the future.

The company plans to report its fourth-quarter and full-year 2019 earnings next week. How it fared in terms of debt repayments in Q4 will be interesting to see. Along with that, investors must be keen on any additional management commentary for 2020.

Conclusion

We have seen how AltaGas played out in the last few years and how its dividend profile looks attractive at the moment. But the million-dollar question investors will have is, why will it continue to outperform in the future? I think the most fundamental factor is its stable earnings profile.

As earlier stated, midstream and regulated utility operations facilitate steady earnings and dividend growth. Also, midstream operations generally have less direct exposure to natural gas prices and make it relatively less risky. Thus, ALA's steady dividends and continued upward climb driven by fair earnings growth will likely continue to reward investors.

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Date

2025/08/19

Date Created

2020/02/18

Author

vinitkularni20

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