AltaGas (TSX:ALA): Even After a 71% Move, This Stock Is Still a Buy

Description

It's been a stellar 13 months for **AltaGas** (TSX:ALA) shareholders.

You might remember back in January 2019, when it seemed like there was nothing but bad news surrounding the stock. The company was forced to cut the dividend after failed U.S. acquisition caused significant stress to the balance sheet. It was even forced to spin out some of its best assets into another company, something many investors predicted would further deflate the price of the remaining assets.

A depressed stock market didn't help, either. Remember, the beginning of 2019 was the end of a bear market that lasted throughout the last half of 2018. Many investors were at maximum pessimism levels, and it showed.

And there I was, pounding the table on AltaGas shares. I was fortunate enough to load up on the stock for my own portfolio just a hair above the lows. Including reinvested dividends, shares are up some 71% in the last 13 months.

You might think after such a move the stock would be due for a correction, but I don't think so. Here's why I continue to be bullish on AltaGas and think it could easily continue to be a top performer.

It's still cheap

Back in early 2019, AltaGas was trading at approximately four times that year's projected funds from operations (FFO). No, that's not a typo. It was one of the cheapest stocks I've ever seen on a price-to-FFO basis.

I doubt investors will be able to buy AltaGas shares that cheaply again, but that doesn't mean we should let this recent memory cloud our judgement. The stock is still cheap on a price-to-FFO basis.

The firm estimates it'll generate approximately $1 billion in FFO in 2020. The stock has a current market cap of just over $6 billion. That puts shares at just six times 2020's estimated funds from operations.

2021 is projected to be a little better yet, as various growth projects add to the bottom line. The utility part of the business should also benefit from rate hikes that will take effect this year and next year.

Balance sheet improvements

Many investors were worried about AltaGas's balance sheet at this point last year, pointing out that the debt load of some $10 billion was pretty excessive.

These days the debt is much more manageable. At its peak, the debt was more than 10 times EBITDA. These days, total borrowings are closer to five times EBITDA, and that ratio should continue to shrink, as earnings are funneled back towards debt repayment.

Management also made the move to suspend the stock's dividend-reinvestment program — a strategy that was introduced originally to preserve cash. This isn't a move you make when you're worried about the balance sheet.

Get paid to wait

Even after the dividend cut, AltaGas still offers a pretty robust monthly dividend. The current payout is $0.08 per share each month, which works out to a yield of 4.3%. And with a payout ratio in the 25% of funds from operations range, investors don't have to worry about a dividend cut.

In fact, I wouldn't be surprised if the company started raising dividends next year. The combination of increased earnings and lower debt will free up capital to put towards dividends, and management knows raising the dividend sends an important message to shareholders.

The bottom line

Some investors might be happy to take their 71% profit and move on, but I'm going to continue to hold my AltaGas shares.

As the company increases earnings, pays down debt, and makes other improvements, my shares will continue to get more and more valuable. The low valuation should return to more normalized levels too, something that will also help boost shares.

Don't give up on this stock, even though it has moved up so much already. It looks to be on the cusp of delivering solid returns for years to come.

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Date
2025/08/23
Date Created
2020/02/26
Author
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