



AltaGas (TSX:ALA) vs. Algonquin (TSX:AQN): A Tale of 2 Energy Plays

Description

I find that comparing and contrasting companies can be a very useful exercise, particularly for two decent energy companies like **AltaGas** ([TSX:ALA](#)) and **Algonquin Power and Utilities** ([TSX:AQN](#)) ([NYSE:AQN](#)). These companies are slightly different in terms of their operations and long-term growth prospects, but are similar in the sense that both companies have chosen to engage in acquisitions as a core strategy to provide earnings growth.

Companies that choose to grow via acquisition have always interested me, from the former Valeant (now **Bausch Health Companies**) to Warren Buffett's **Berkshire Hathaway**, there are a range of acquisition methodologies and strategies that can be employed. Perhaps Valeant/Bausch and Berkshire Hathaway are the most extreme examples of either extremely destructive acquisition strategies which destroyed shareholder value, and extremely valuable acquisition methodologies which have enriched investors over time. Here's my take on where these two companies sit on the spectrum.

Algonquin Power

I continue to be bullish on Algonquin in large part because I believe the company's acquisition strategy creates meaningful shareholder value in the way of synergies between the companies which are clearly carefully picked by Algonquin's management team.

Algonquin has a proven track record of successful acquisitions, which is supported by data in the form of rising return on equity (ROE) and return on invested capital (ROIC) metrics over time. Companies that are swallowed up by Algonquin do better, improving the value proposition for investors who often moan when they hear a company in their portfolio is making an acquisition. By the way, I would like to reassert my belief that ROE and ROIC are really the only two metrics that matter when assessing acquisitions, but I know that some analysts choose other metrics. To each their own.

AltaGas

I would put AltaGas in the list of companies that destroy shareholder value (i.e., on the Valeant end of

the spectrum), though I know some of the issues the company had with its acquisition of WGL in recent years were not necessarily its fault.

I'm going to focus on WGL, because this has been the centerpiece acquisition many analysts believed AltaGas needed to do to diversify outside of Canada and gain more exposure in the United States. The deal was massive, and with the [amount of debt AltaGas took on to fund this deal](#), it didn't really make sense to me at the time. The timing of the debt also caused problems for investors as regulatory delays cost AltaGas big in terms of carrying costs for this project. AltaGas was forced to sell several valuable non-core assets to pay down some of this debt, including hydro assets I really liked, which furthered shareholder value destruction in my books.

Stay Foolish, my friends.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/09/08

Date Created

2020/02/27

Author

chrismacdonald

default watermark