



Why AltaGas (TSX:ALA) Stock Fell 4.9% Yesterday

Description

AltaGas ([TSX:ALA](#)) stock has been going through a rough period lately. While this is not unusual in today's turbulent times, it still seems unusual to me. After all, the company just reported a strong first-quarter result. Also, AltaGas is a defensive company that also has exposure to growth. Yet AltaGas stock fell 4.9% yesterday after the release of first-quarter results. Is this justified?

AltaGas's stock price reacts to market fears and general market weakness

[The S&P/TSX Composite Index declined](#) 2.9% yesterday, as investors reacted to weak Canadian GDP news. Essentially, Stats Canada reported that February GDP showed no growth. Furthermore, March GDP declined by at least 9%, according to estimates earlier this month. We are all worried about the financial state of the country.

It is with this backdrop that investors digested AltaGas's results. Despite an 11% increase in normalized EBITDA, investors were not impressed. The utilities segment EBITDA increased 10%, but the midstream segment reported a fall in its EBITDA. This fall was partly due to hedging losses. But in my view, it is greatly overshadowed by the company's Ridley Island Propane Export Terminal (RIPET). This is the growth driver of the midstream segment, as the terminal is seeing strong demand. The company expects total propane exported volumes to increase 43% by the end of 2020. Asia continues to be a prime source of this demand.

So, AltaGas [stock has defensive attributes](#) along with a promising growth area. The utilities segment will account for 60% of AltaGas's EBITDA in 2020. This is the defensive segment. It is benefiting from rate base growth and lower operating costs. The midstream business is located in Western Canada and includes processing and export facilities. These assets are located in some of the fastest-growing markets in North America, including the Montney and Marcellus/Utica basins. This is the growth area.

AltaGas stock falls as investors worry about debt levels and

dividend sustainability

AltaGas made a drastic cut to its dividend about a year and a half ago. This cut was necessary, as the company was too heavily indebted and needed a way out to relieve the pressure. Investors were disappointed, and this negatively affected the company's reputation.

Let's fast forward to today. AltaGas has transformed itself into a mostly utilities company, with 60% of its EBITDA coming from its utilities segment. The company has reduced its debt significantly. AltaGas has also reduced the risk inherent in its midstream business to a significant degree. The company has limited direct commodity price exposure, achieved through the use of hedges and long-term contracts.

This lower risk profile works to ensure the reliability of the dividend. AltaGas has maintained its investment grade rating and has ample liquidity. The dividend-payout ratio is in the range of 70-75%, and the dividend yield is 5.77%. The debt balance will continue to be worked down, further de-risking AltaGas stock.

As time goes on, I think investors will come to see AltaGas for the reliable, defensive company that it is.

Foolish bottom line

On the conference call, management was very optimistic about AltaGas's future and the stability of its business. Guidance was maintained, which should drive investor confidence. I think that AltaGas stock fell yesterday, not because of the company's results, but because of macro problems. In time, AltaGas stock should be recognized as just the type of stock that is needed in this time of crisis.

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Date

2025/07/06

Date Created

2020/05/01

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