



3 Key Takeaways From AltaGas's (TSX:ALA) Earnings Call

Description

Are you looking for some good news this earnings season?

AltaGas ([TSX:ALA](#)) just gave us some. The company's second-quarter earnings result was positive. Management's insights on the earnings call were also positive. AltaGas stock rallied yesterday, as investors digested this strong second-quarter report. We could feel the optimism on the earnings call.

Here are the three key takeaways from AltaGas's earnings call.

AltaGas's earnings increased significantly

Looking past the headlines, the bottom-line result that matters most is very positive. After adjusting for asset sales in 2019, normalized EPS increased to \$0.06 from \$0.01 last year. This is huge.

AltaGas's EBITDA is comprised of the utilities segment (60% of normalized 2020 EBITDA) and the midstream segment (40% of normalized EBITDA). [The utilities segment is the defensive segment](#) for AltaGas. Nevertheless, its EBITDA declined in the quarter. This was due to a decline in retail margins and COVID-related costs.

Importantly, AltaGas reported growth in its regulated utilities due to 2019 rate increases. And going forward, investment in aging infrastructure and new customers will result in even more rate base growth. Management is forecasting an 8-10% compound annual growth rate in its rate base until 2024.

AltaGas's midstream business is booming

In the midstream business, AltaGas posted a strong 13% rise in normalized EBITDA. This was driven by the Ridley Island Propane Export Facility. This facility is part of AltaGas's midstream business. It is connecting Canadian producers to global markets. This is a strategic advantage for AltaGas at a time when this access is lacking

Simply put, the propane business is booming. The Ridley facility is seeing strong interest from producers. Utilization is increasing, and volumes are ramping up quickly.

Recent developments signal an acceleration of growth

So, we've established how important AltaGas's midstream operations are. And we have seen how business is booming here, driving up results. Two recent developments signal an acceleration of this trend going forward.

Firstly, energy giant **ConocoPhillips** is expanding its footprint in the Montney area with the acquisition of Kelt Exploration. While the deal has not closed yet, it is a good sign for the region and for AltaGas's infrastructure in the area. [It certainly validates the economics](#) of the northeast British Columbia acreage. It will almost definitely result in increased volumes and increased investment in the area. ConocoPhillips has the resources to effect this change.

AltaGas's Ridley Island Propane Export Facility was completed in May 2019. It provides Canadian natural gas producers with the ability to sell their propane to markets in Asia. Importantly, this project was completed on time and on budget. This is surely a confidence builder in the company and its management team.

Secondly, AltaGas is increasing its ownership of Petrogas. This strengthened partnership brings "key infrastructure assets and marketing expertise." It will expand AltaGas's midstream value proposition. The ultimate goal is to create a fully integrated midstream logistics network.

AltaGas's midstream business is unique, as it offers exposure to domestic and international markets. This is a growing business with booming demand and room for growth. There are significant low-cost expansions that can be made at all facilities. This translates to a prosperous present and future.

Reducing leverage but ready to seize opportunities

AltaGas has come a long way since the dividend was cut back in 2018. It has emerged as a focused utility and midstream company striving for excellence. Yesterday's results show real progress and real promise. But AltaGas has not forgotten about its debt burden. The company continues to focus on reducing leverage and directs cash flow to this end.

Foolish bottom line

AltaGas's earnings update has shown that the company is seeing strong momentum. Consequently, AltaGas stock is on the cusp of strong gains. Its defensive utilities segment is seeing strong rate growth and its midstream segment is seeing booming demand. With a 5.68% dividend yield and a rapidly de-risking business, AltaGas is in the midst of good times. Offering growth and defensive characteristics, AltaGas stock is a great opportunity today.

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