



Altagas Stock Fell 7% in October – Is it Time to Buy?

Description

Up more than 5%, the TSX had a really good month in October. **Altagas Ltd.** ([TSX:ALA](#)) stock, on the other hand, did not. While the outlook remains strong for Altagas, the energy company has seen some troubles recently. This has brought Altagas' stock price down more than 7% in October.

Trading at a mere 12 times expected earnings, and yielding 4.5%, is now the time to buy Alltagas stock?

Armed with a winning strategy

Altagas is an [energy](#) infrastructure giant with a strong position in two distinct areas. The first is the utilities business. This business is a stable one with consistent, steady growth. It's the part of Altagas' business that's regulated and defensive. The other business is the midstream business. This is the business with the rapid growth.

Altagas' diversified business allows the company to leverage each segment's strengths for the greater good. As a whole, results should be more consistent and higher growth than if this diversity did not exist. This translates into an attractive risk/reward profile for investors. Simply put, the stable utilities segment is being complemented by the high growth midstream business.

The company's latest quarter is a reflection of the potential of Altagas stock. The utilities segment continues to be robust. It's benefitting from continued rate increases, as well as operational upgrades and efficiencies. For example, Altagas is in the process of replacing older pipelines to improve performance. This has had the desired result, as new pipelines have lower leak rates and reduced methane release. This, in turn, lowers costs, and increases efficiencies and the customer experience. For the quarter, the utilities segment generated normalized EBITDA of \$115 million, an increase of almost 13%.

The midstream segment, which accounts for roughly half of Altagas' revenue, had a less positive quarter. While export volumes continue to beat expectations, butane pricing and elevated logistical costs put a damper on results. Therefore, this segment saw its normalized EBITDA decline to \$108

million from \$181 million last year. This is a sharp decline that more than explains Altagas' stock price performance in October.

Altagas' key role in providing global energy security

Clearly, Altagas has stumbled on some issues in its midstream business. But has this changed the company's outlook? Or are the issues merely a temporary blip in an otherwise fundamentally healthy story? Let's explore.

So, the two big culprits in Altagas' midstream business are butane pricing and logistical costs. Butane is one of the liquified petroleum gases that Altagas exports through its facilities. These exports are mainly going to Asia right now. The issues that brought butane pricing lower were many. First of all, demand from Asia was softer due to lockdowns. Also, Altagas was not adequately hedged this quarter, so it was vulnerable to price volatility. Lastly, there was an oversupply situation caused by supply from other areas of the world. Understandably, this pressured Altagas' results in the quarter.

Why Altagas stock is a buy right now

I view these issues to be temporary and fixable. Firstly, I firmly believe that Canada (and Altagas) will be key players in the global search for energy security. This backdrop is the backbone of my belief that Altagas stock (ALA) is a buy right now. As management so nicely articulated, "The midstream business will continue to be centered around our global export platforms which provide access to key west coast North American ports and provide a structural advantage – a 60% advantage over US Gulf coast and a 45% advantage over the Middle East for shipping time savings."

Secondly, Altagas has taken action to combat the negative pressures. For example, the company is increasing its hedges of commodity pricing (57% of Q4 export volumes are hedged), as well as freight costs. Also, pricing has held up nicely in Altagas' propane business. Therefore, exports will be more heavily weighted to propane in the coming months. Overall, export volumes continue to beat expectations and now stand at over 110,000 barrels per day. This is up 5% from last year and zero three years ago.

Altagas' stock price (ALA) is [extremely cheap right now](#). In my view, this setback quarter will be a temporary blip. Altagas stock has many good years ahead.

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