



Algonquin Power & Utilities Corp. Is Near its All-Time High: Is it a Buy?

Description

Algonquin Power & Utilities Corp. ([TSX:AQN](#)) has been nothing short of amazing. In the past year it has appreciated 32% and is near its all-time high.

Is it still a buy?

The low-interest rate environment has driven more people to the stock market in search of higher yields. Algonquin Power & Utilities offers an above-average yield of 4.5% today.

Algonquin Power & Utilities pays eligible dividends, which are more favourably taxed in a non-registered account compared to your job's income. The company is likely to grow its dividend to help you counter inflation and maintain your purchasing power.

The business

Algonquin Power & Utilities is a diversified North American utility. It has a portfolio of wind, solar, hydroelectric, thermal, and natural gas power-generating facilities, which have an installed capacity of 1,185 megawatts. About 60% of its electrical output is under long-term contractual arrangements, which have a weighted average remaining contract life of 14 years.

Algonquin Power & Utilities provides essential water, electricity, and natural gas utility services to more than 560,000 U.S. customers. These are all rate regulated and generate stable and predictable earnings for Algonquin Power & Utilities.

It's also involved in rate-regulated electric transmission and natural gas pipeline systems in the U.S. and Canada.

Dividend

Algonquin Power & Utilities pays a U.S. dollar-denominated dividend. Since 2010 its dividend per share has grown from US\$0.06 to US\$10.59 cents, which equates to an annualized growth of 9.9%.

In the foreseeable future, the utility aims to increase its dividend by 10% per year, underpinned by increases in earnings and cash flow. The 10% hike translates to a 12% hike assuming an exchange rate of US\$1 to CAD\$1.20.

At about \$12.30 per share, the utility yields 4.5%. The utility's cash flow covers its dividend with a payout ratio of about 50%.

Strong first-quarter results

In the first quarter, Algonquin Power & Utilities's adjusted earnings before interest, taxes, depreciation, and amortization increased 29% to \$147.9 million compared with the first quarter of 2015. Similarly, its adjusted funds from operations grew 21% to \$121.8 million, and its adjusted earnings per share grew 24%.

This is thanks partially to the strong U.S. dollar against the Canadian dollar. For example, about 6.4% of its earnings per share were attributable to the stronger U.S. dollar.

Going forward

From 2016 to 2018, Algonquin Power & Utilities will add about 700 megawatts of generation capacity from wind and solar power-generating facilities with an average contract life of 21 years. These contracts will further improve the stability of the utility's cash flows.

Other than expanding its business operations, Algonquin Power & Utilities is also on the lookout for accretive acquisitions, which will contribute to growth.

Conclusion

Algonquin Power & Utilities is a diversified utility with an S&P credit rating of BBB and a reasonable debt-to-cap of 51%.

The utility is fully valued at 11.5 times its cash flow, but it's a utility with growth potential. Its cash flow is estimated to grow at about 14% per year in the medium term.

It will be an excellent buy on dips when mergers and acquisitions occur. For example, on February 9 when it announced a merger with **Empire District Electric Company**, Algonquin's share price fell a little over 8% in a few days. In five months the shares have more than recovered to the pre-dip levels.

If you're less concerned about total returns, the company's safe 4.5% yield can be a nice addition to the income in your diversified portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)

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Author

kayng

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