3 Reasons to Add This 5% Yield to Your Portfolio

Description

The push to cleaner, renewable forms of environmentally friendly energy continues with governments everywhere establishing clean energy targets and making the regulatory hurdles for coal-fired electricity generation ever steeper. This is happening in Canada; a number of provinces, including Alberta, have implemented regulations to accelerate the uptake of renewable energy and remove coal-fired power from the energy mix.

This push for cleaner energy will act as a powerful tailwind for renewable energy companies such as **Algonquin Power & Utilities Corp.** (TSX:AQN). This company, which has an established portfolio of clean energy assets and a growth-focused business strategy, possesses three key characteristics that make it a stock that should be in every portfolio.

Now what?

Firstly, Algonquin owns and operates a diversified portfolio of renewable energy assets across Canada and the U.S. which is focused on hydro, wind, and geothermal operations.

The power-generating industry's steep barriers to entry and the unchanging demand for electricity, along with over 80% of electricity generated by Algonquin being sold on long-term contracts, virtually guarantees its earnings. As the North American population expands and the demand for renewable sources of electricity increases, Algonquin's earnings can only grow.

The virtues of these characteristics becomes apparent when reviewing its second-quarter 2016 results, where adjusted earnings before income, tax, depreciation, and amortization (EBITDA) shot up by a very healthy 22% year over year. Unsurprisingly, Algonquin reported a very healthy 38% increase in net earnings for the same period.

This solid financial result can be attributed to higher demand, the contributions of new facilities, and the application of higher rates in its regulated utility business.

Secondly, Algonquin's earnings will continue to grow as it expands its business.

One important aspect of Algonquin's strategy is its focus on expanding its business through a combination of organic growth and accretive acquisitions. By the end of July Algonquin had completed the 200 megawatt Odell Wind Project in Minnesota with all electricity sales locked in through a 20-year power-purchase agreement.

Algonquin is also progressing well with the $3.4 billion acquisition of **The Empire District Electric Company** (NYSE:EDE). When completed, this will add $4.1 billion of utility assets and 218,000 customers to Algonquin's business.

More importantly, it significantly expands its exposure to regulated utilities, further increasing the certainty of its earnings by boosting EBITDA obtained from regulated sources to 72%.

Finally, the certainty of Algonquin's earnings coupled with its strong growth prospects allows it to reward investors with regular dividend hikes.

Algonquin has been paying a regular dividend since 1998 and, after recording its solid second-quarter financial result, the utility elected to hike its dividend by 10%. This is the fifth straight year in which it has hiked its annual dividend. The dividend now yields an attractive 5%, which is one of the best yields among TSX-listed utilities.

With its business still growing strongly along with the significant upside that the Empire deal offers, the likelihood of further dividend hikes is high.

So what?

Algonquin is an attractive investment because the secular trend to renewable energy is acting as powerful tailwind for growth. This is enhanced by its growing, diversified U.S. presence in water, electricity, and natural gas distribution. Upon completion of the Empire deal, this will increase, giving its revenues and bottom line a healthy long-term bump.

When these attributes are considered in conjunction with its wide economic moat, dependable cash flows, and regular growing dividend, Algonquin is a compelling addition to any portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Author

mattdsmith