



## This Utility Just Became More Attractive

### Description

One of the first things you'll notice about **Algonquin Power & Utilities Corp.** ([TSX:AQN](#)) is its big dividend. The yield is juicy due to a stronger greenback against the loonie and a price pullback in shares. In fact, the shares are 10% lower than they were three months ago.

As a comparison, the S&P/TSX Capped Utilities Index, which has Algonquin as its seventh-largest holding, has retreated 8% in the same period.

The pullback in utilities is caused by rising bond yields, which typically make high-yield and slow-growth companies, such as utilities, less attractive. However, Algonquin is not a slow-growth utility.

In the first nine months of the year, Algonquin's funds from operations per share (FFOPS) increased by 11.7% compared with the same period in 2015.

### The business

Algonquin has a \$5 billion, diversified North American portfolio of generation, transmission, and distribution assets.

Its distribution business provides electricity, natural gas, and water utility services to more than 560,000 U.S. customers across 11 states. These rate-regulated assets generate stable earnings and cash flows.

Specifically, the utility distributes electricity to 93,000 customers in two states, distributes natural gas to 293,000 clients in six states, and distributes water to 178,000 connections in seven states.

Its generation business has clean energy facilities with an installed capacity of 1,300 megawatts. They are non-regulated assets powered by wind, solar, hydro, and thermal energy.

Wind power 16-9  
and not to be taken unknown

## Dividend

Algonquin has about 80% of its business in the U.S., and it offers a U.S. dollar–denominated dividend that benefits Canadian investors as the U.S. dollar is typically stronger than the Canadian dollar.

Thanks to a strong U.S. dollar and the pullback, the shares now yield 5.3%. Management seems to be committed to growing its dividend.

Since 2010 the company's dividend per share has grown from US\$0.06 to US\$0.59 cents, which equates to a growth of 9.9% per year. In Canadian dollar terms, it has translated to a higher growth rate.

There are two main contributing factors that should lead to dividend growth of up to 10% per year through 2018.

## Growth

First, the utility has about 500 megawatts of generation-development projects in its pipeline. Most have a contract life of 20 years. These projects exclude the 200-megawatt Odell Wind Project, which began its operations in Minnesota in early August.

Second, Algonquin is expected to close its acquisition of **Empire District Electric Co** by early 2017. The addition of Empire will not only be immediately accretive to Algonquin's earnings-per-share (EPS) growth and FFOPS growth, but it will also increase its regulated operations from about 51% to roughly 72%.

For the three-year period following closing, the average annual accretion to EPS and FFOPS is expected to be about 7-9% and 12-14%, respectively.

## Conclusion

Algonquin normally trades at a price-to-cash-flow ratio (P/CFL) of 12. However, at below \$10.70 per share, it trades at an attractive P/CFL of 10.3. It's impossible to buy shares at the bottom, but investors can buy shares of this good utility for a juicy yield as it dips.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

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

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