



The Power Tied Up in Algonquin Power & Utilities Corp.

Description

The past year has been very interesting for shareholders of **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)). Starting the year at a price just over \$10 per share, investors have experienced a rally to \$12.45 only to see a retreat afterwards.

Looking at the company and the stock performance over the past several years, however, the trend has been very clear: it's been moving upwards. Except for 2013, the performance has been consistent. In 2013, there was a pullback in the second half of the year similar to this year.

With a beta of 0.25, this security has a lot to offer. Over the past five years, the dividend has increased every year with the exception of the first half of 2016. The reduction was from approximately \$0.13 per unit to approximately \$0.10 per unit. Although it was a small decrease to start the year, the increases resumed to and \$0.14 per share became the new standard in the latter part of the year.

Lagging behind was the share price itself. Trading comfortably between \$10.50 and \$11.50 for the past month, shares could be about to take off further.

Developments

Recently announced was the buyout of the company **Empire District Electric Co** (NYSE:EDE) at an all-cash price of \$34 per share. With the combination of the two companies with market capitalizations of approximately \$3 billion (Algonquin Power & Utilities Corp.) and \$1.5 billion (Empire District Electric Co), the question becomes, what could happen to the dividend in the future?

The dividend

Looking at the dividend-payout ratios of the two companies, the best course of action is to look at the dividend policy of the buying company. The dividend payout ratio calculated as dividends paid divided by net profit, the amounts for Algonquin Power & Utilities Corp are 264% in 2012, 114% in 2013, 106% for 2014, and 114% for 2015. The average over these four years is 150%. If we exclude 2012, the average becomes approximately 111%.

Moving forward to the company being acquired, the payout ratios are 76% for 2012, 66% in 2013, 66% in 2014, and 81% in 2015 for Empire District Electric Co. This is very good news for income investors holding shares of Algonquin Power & Utilities Corp.!

Why?

Assuming the management of Algonquin Power & Utilities Corp. are the ones making the capital-allocation decisions, which they should be, the cash flows generated by the new entity should be available for distribution to unitholders at the same rates as before.

Having shown over the past several years a propensity to pay out over 100% of the profit, it is only rational to assume the company will continue to do the same after the combination of the two entities.

Conclusion

Like any other major transaction, there will be a period of adjustment for everyone involved, which includes the shareholders. After the dust settles, business should return to normal as it always has, and shareholders should continue to be rewarded in the way they were used to.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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