A 10% Dividend Hike Means More Income for Shareholders

Description

This year has been good so far for **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) and its shareholders. The rising utility announced a 10% dividend hike in the first quarter. The new quarterly dividend is payable in April.

This dividend increase is backed by the company's anticipated growth, which includes the Empire District Electric acquisition that it completed on January 1.

Dividend and dividend growth

Algonquin offers an above-average dividend yield that's growing at a high rate in the utility space thanks partly to its U.S. dollar–denominated dividend. At about $11.30 per share, the utility yields 5.3% after its recent dividend hike of 10%.

Specifically, it raised its quarterly dividend per share from US$0.1059 to US$0.1165. Using a more conservative currency exchange of US$1 to CAD$1.20, Algonquin would still yield 4.9%.

The newest dividend hike marks the start of the seventh consecutive year of its dividend growth.

What the Empire acquisition entails

Image not found or type unknown

wind generation facility

Since the Empire acquisition makes up 35% of Algonquin's five-year growth plan through 2021, the acquisition is a huge milestone.

Algonquin now has $10 billion of total assets. Specifically, it delivers rate-regulated water, electricity, and natural gas utility services to more than 782,000 customers in 13 states in the U.S. As a result, Algonquin's regulated business makes up close to 70% of its operations.

Algonquin also has 2,500 MW of installed capacity generated by its wind, solar, hydroelectric, and thermal facilities. As well, it has some rate-regulated electric transmission and natural gas pipeline systems.

Due to a higher level of regulated operations and a more diversified portfolio, Algonquin generates more stable cash flows to support a durable dividend.

Going forward

Algonquin plans to grow organically through development and via acquisitions. It plans to invest primarily in its generation and distribution businesses through 2021.

Algonquin believes its growth plan supports dividend growth of 10% per year with a payout ratio of 85-

100% based on its GAAP earnings and 33-40% based on its funds from operations.

Investors should keep the following in the back of their minds. Higher interest rates will increase Algonquin's borrowing costs, and currency fluctuations in the U.S. dollar against the Canadian dollar will fluctuate its effective dividend yield in Canadian dollar terms.

Analyst estimates

Across 10 analysts at **Thomson Reuters**, Algonquin was given a 12-month mean price target of $14.20, which implies there's a potential for almost 26% upside. Adding in the +5% yield, a total return north of 30% in the next year is possible.

The takeaway

Algonquin has become more diversified and more valuable by acquiring Empire and raising its dividend. Management aims for a 10% dividend raise per year in the next few years. Over time, that can only lead to more income for shareholders and a higher share price.

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