Don’t Miss This Great Income-Growth Opportunity

Description

If you’re a conservative investor, you’ll want to consider **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) as a long-term investment. It offers a safe, growing dividend, and the shares are expected to steadily appreciate over time.

Algonquin acquired Empire District Electric at the start of the year. Empire is a big part (about 35%) of Algonquin’s growth plan through 2021.

Empire added about $4.1 billion of regulated utility assets and roughly 218,000 distribution customers to Algonquin’s portfolio. In other words, Algonquin is more diverse and earns a bigger portion of stable earnings.

The business today

Algonquin has $10 billion of total assets, including rate-regulated distribution utilities and power-generation facilities.

The North American utility distributes natural gas, electricity, or water to 782,000 customers in 13 states. These are rate-regulated services, which have a return on equity of 9-10% and generate stable and predictable earnings.

Algonquin has 36 renewable and clean-energy facilities, which have a net installed capacity of 1,200 MW, of which 85% is under long-term power-purchase contracts with inflation escalations. Its average power-purchase agreement length is 15 years.

In its renewable energy portfolio, it generates about 76% of its earnings before interest, taxes, depreciation, and amortization (EBITDA) from wind generation, 13% from hydro, 6% from thermal, and 5% from solar.

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USD dividend

Growth that supports a growing dividend

Other than the Empire acquisition of $3.2 billion, Algonquin has $5.4 billion of potential investments (about 44% for its power generation portfolio and 55% for its regulated utilities) over the next five years.

Specifically, for its renewable portfolio, Algonquin’s commercially secured projects are expected to add 511 MW of capacity.

On top of the above investments, Algonquin’s organic growth from its current assets will also support earnings and cash flow growth, which supports dividend growth of 10% per year through 2021.

Indeed, Algonquin announced a dividend hike of 10% in January for its March dividend. The bigger annual payout now totals US$0.4659 per share.

At about $11.60 per share and based on the current foreign exchange rate of about US$1 to CAD$1.30, Algonquin yields 5.2%.

Investor takeaway

By acquiring Empire, Algonquin is executing a big part of its five-year growth plan. Simultaneously, it has $5.4 billion of investment projects to grow the utility.

Algonquin has increased its dividend for seven consecutive years. Management believes it can continue growing its dividend by 10% per year. Thanks to a strong U.S. dollar against the Canadian dollar, investors can start off with a yield of 5.2% from Algonquin.

If management follows through with its dividend-growth plan, and assuming a more conservative forex conversion of US$1 to CAD$1.20, investors can expect a yield on cost of 7% by 2021 on an investment today.

The shares trade at a reasonable multiple today. If it trades at the same multiple by the end of 2021, and assuming funds-from-operations per-share growth of 11% per year, investors can expect annualized returns of 12-16%.

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