3 Reasons to Add This Juicy 5% Dividend Yield to Your Portfolio

Description

In early January of this year, renewable energy utility **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) rewarded loyal shareholders with yet another dividend hike. This amounted to a very juicy 10% increase in the existing dividend and represents the seventh straight annual dividend hike. Algonquin now offers a very attractive 5%. While these regular dividend hikes make Algonquin an appealing investment, they aren't the only reason for investors to add it to their portfolio.

Now what?

Firstly, the secular trend to renewable energy globally is gaining considerable momentum, and this will act as a powerful tailwind for growth for renewable energy companies such as Algonquin.

Currently, it operates a portfolio of renewable power-generating assets across solar, hydro, and wind facilities located in North America with 1,150 megawatts of capacity.

Algonquin is well positioned to take further advantage of the push for clean electricity generation because of its portfolio of renewable energy projects under development. These are expected to come online sometime between now and 2020, boosting total installed capacity by 351 megawatts.

More importantly, its power-generation business provides it with a steady and consistent source of revenue, because about 86% of its electrical output is contractually locked in with an average weighted contact life of 15 years. It is this dependable earnings stream that gives Algonquin the ability to finance further projects and acquisitions that will boost its electricity-producing capacity.

Secondly, Algonquin completed the transformative $3.2 billion purchase of The Empire District Electric Company, which boosted its U.S. presence.

This acquisition gave it access to new markets and added $4.1 billion of utility assets and 218,000 customers to Algonquin's existing U.S. operations.

As the deal is bedded down and efficiencies across complementary operations are implemented, it will give Algonquin's earnings a solid bump. This deal (and the resultant earnings boost) was a key reason for management's decision to reward investors with that juicy 10% dividend hike earlier this year.

Algonquin is positioned to benefit from higher U.S. economic growth triggered by Trump's proposed fiscal stimulus and his planned corporate tax cuts.

Finally, Algonquin maintains a rock-solid balance sheet.

This is an important consideration because utilities are a capital-intensive business. Considerable funding is required to maintain operations and provide the liquidity required to fund projects as well as further acquisitions that will expand the existing asset base and boost capacity.

Algonquin is in a strong position in this regard.

It finished the third quarter 2016 with almost $48 million in cash and $1.9 billion in long-term debt. Crucially, Algonquin bolstered its balance sheet by successfully completing a $300 million capital raising in January of this year, the proceeds of which are earmarked for debt repayments and general expenses.

Furthermore, net debt comes to just over four times EBITDA. This seems high in comparison to other industries, but it's is quite a conservative number for a diversified electricity and other services utility. For example, long-time investor favourite **Fortis Inc.** (TSX:FTS)(NYSE:FTS) has net debt totaling a whopping 11 times EBITDA, and **Emera Inc.** (TSX:EMA) has net debt of eight times EBITDA.

So what?

Algonquin is one of the best picks among Canadian utilities. It will not only benefit from the secular trend to clean renewable sources of energy but also from its solid U.S. operational footprint. This is because of Trump's plan to cut corporate taxes and stimulate economic growth. These factors will give its earnings a healthy bump, supporting further dividend increases in coming years.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:EMA (Emera Incorporated)
5. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/29
Date Created
2017/03/02
Author
mattdsmith