



A Strong U.S. Dollar Is Driving This Canadian Security Higher

Description

Over the past several months, shares of **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) have increased from a price close to \$10.50 to \$12.50 per share; the dividend increased by 10% given the stronger cash flows from the company.

While the company is incorporated and based here in Canada, there are significant amounts of cash flows generated south of the border (in U.S. dollars). A stronger U.S. dollar translates to more Canadian dollars; assuming one U.S. dollar translated to \$1.20 Canadian dollars, then a higher U.S. dollar would give the company more than \$1.20 Canadian dollars. Currently, the USD/CAD exchange rate is near 1.35, which has increased close to three cents in favour of the U.S. dollar over the past month.

This change in currency value translated to an increase in Canadian dollar–denominated cash flows for shareholders of Algonquin. Clearly, the market is taking notice as the shares have increased in value by close to 20% over the past few months.

Given the higher share price, the current dividend yield is less than 5%, translating to a lower yield for new investors coming into the security. Although this may not seem attractive to new investors, the reality of the situation is, the patient investors who have stayed the course have had the benefit of experiencing many dividend increases over a number of years. Canadian investors should remember the dividend is paid in U.S. dollars and converted to Canadian dollars before it is deposited into their investment accounts.

Earnings

This past Friday, Algonquin reported earnings; given the acquisition of The Empire District Electric Company, the company experienced a substantial increase in both revenues and EBITDA (earnings before interest, taxes, depreciation, and amortization).

The good news for investors is, when looking behind the curtain, the increase in earnings per share for the fourth quarter is nothing short of 14%, while the dividend per share increased by 8% quarter over quarter. Investors could be looking at another dividend increase down the road.

Looking at total dividends paid as a percentage of CFO (cash flow from operations) for the entire fiscal year, investors have received 41% of the company's CFO. Given this is coming from a utility company, there is still room for an increase in the dividend.

The advantage for shareholders of Algonquin is the defensive nature of the company. Providing power, the reality is, a home must be run during bull markets as it is during recessions. Although investors need not worry about large swings in revenues in profits, they must also accept this investment is not one that is likely to double in any 12-month period.

With the majority of future growth coming from acquisitions and small price increases, investors should be able to add shares of Algonquin to their portfolios without losing a moment's sleep at night.

CATEGORY

1. Dividend Stocks
2. Investing

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