



Finding the Next Algonquin Power & Utilities Corp.

Description

Over the past five years, shareholders of **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) have had a lot to be happy about. With a total price return close to 115% in addition to a dividend which has ranged from 4.5% to 5.5% on an annual basis, investors have potentially received a total return close to 150% over the five-year period, which translates to an annualized return close to 25%. That's 25% on a defensive dividend-paying security!

The question investors need to ask is, "Where is the next Algonquin-like investment to be found?"

Looking at the utility security, we realize investors have benefited from declining interest rates over the past decade in addition to an increase in rates of electricity. To boot, the company provides a service or product that is needed by consumers. People need to heat their homes and turn the lights on — it's that simple.

When looking first at what consumers need in addition to the type of investment that could benefit from the next move in interest rates, the question of where to find another Algonquin seems to be a difficult one to answer.

Although insurance and banking services clearly top the list, the valuations of many of Canada's biggest financial institutions (both banking and insurance) are much too aggressively valued.

Instead, if investors assume interest rates will increase and if consumers will continue to shop around for the best mortgage rate, the company that could become the next 150% return over the next five years may just be **Home Capital Group Inc.** ([TSX:HCG](#)).

At a current price of approximately \$25.50 per share, shares had been on a roll until short sellers from south of the border decided to have some fun with the company. Over an approximate two-year span between 2012 and 2014, shares doubled, showing us that the potential for large returns are potentially imminent.

Currently, the company offers new investors a yield close to 4%, which translates to a dividend return over a five-year time frame of close to 20%. The remainder of the return would need to come from an

increase in the share price. According to the numbers, the share price would be between \$60 and \$65 per share.

Although this price may seem somewhat aggressive to investors, the company traded at a price close to \$55 during 2014. In 2014, earnings per share (EPS) were \$4.45, declining to \$3.70 during 2016. Assuming the same P/E as 2014, investors need EPS to be close to \$5 to achieve a share price north of \$60.

With a company in an increasingly important position due to the new mortgage regulations, the hope of seeing EPS increase at a rate of approximately 8% over the next five years isn't too much to ask. Let's not forget, EPS increasing by 8% can lead to a 150% return.

Settling for only a 100% return over a five-year period would still be all right.

CATEGORY

1. Dividend Stocks
2. Investing

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