



Algonquin Power & Utilities Corp. Is a Utility Company on Steroids

Description

Investors of **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) have been very happy over the last few years. The company delivered huge capital gains to go with a bountiful dividend yield. The stock has certainly had its run up, and it's now soaring to all-time highs, but is the stock still a great play for income investors?

The utility sector is boring, and growth is usually very slow, but Algonquin is firing on all cylinders. It goes to show that you can have a high dividend yield and great capital gains together in one stock. The stock certainly not cheap anymore, but the whopping 4.9% yield and the upward momentum in share price is definitely appealing.

Algonquin is a North American renewable energy and regulated utility company with over \$10 billion worth of assets. The company distributes electricity, natural gas, and water to over 780,000 American customers across 13 states. The company also has 36 renewable energy facilities that have 1,200 megawatts worth of installed capacity.

Dividend-growth king in the making

Algonquin is well positioned to become a dividend-growth king in the long run. The company will unlock value from its recent acquisition of Empire District Electric, which will provide a huge boost to profitability and free cash flow generation over the next few years.

Going forward, investors can expect generous dividend hikes of 10% or more, which is crazy considering that the current yield is hovering around the 5% mark and that the stock price has more than doubled over the last five years.

Terrific water utility assets

If you've seen *The Big Short*, then you'll know the Dr. Michael Burry, the founder of Scion Capital, is a terrific investor. He correctly forecasted the real estate bubble that led to the Great Recession, and he profited greatly from his credit default swaps against the subprime mortgage market. He currently manages Scion Asset Management, and he's been focusing on one commodity: water.

Algonquin is one of the few Canadian stocks that will allow investors to obtain exposure to water utilities. Algonquin's subsidiary, Liberty Utilities, owns stakes in many water operations across various U.S. states. These water utilities are as stable as they come, and if you want to take a page out of the book of Dr. Michael Burry, then Algonquin is worth keeping on your radar.

Valuation

Algonquin is a fantastic business, but the stock isn't cheap. The stock currently trades at a price-to-earnings multiple of 28.86 with a price-to-book multiple of 2.8. That's quite expensive, especially for a utility stock, but Algonquin is more than just your everyday, boring utility stock. It's growing fast, and shareholders will be rewarded greatly by holding the stock over the long term.

Not only do you get exposure to natural gas and electricity distribution, but you also get fantastic water utilities, which I believe is the most stable utility you could ask for.

If you're a long-term income investor, I'd pick up a small chunk of the stock now and on any pullbacks that may happen later in the year.

Stay smart. Stay hungry. Stay Foolish.

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