Looking Past Algonquin Power & Utilities Corp.

Description

Over the past five years, investors in **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) have done very well. At a current price in excess of $13 per share, the results have been astonishingly good. The defensive utilities corporation has returned a total price return in excess of 16% over the past year and approximately 105% over the past five years. To make the returns even juicier, the dividend yield has been close to 5% annually, translating to a five-year return in excess of 150%!

Because of the good returns in the past, investors have potentially bid the price up excessively. With this higher share price, the dividend yield, or yield on cash (YOC), has declined in tandem. With a current quarterly dividend of US$0.1165 per share, the annual yield (after translating to Canadian dollars) is no more than 4.8%. Investors seeking a five-year return of 150% may now need to look elsewhere in spite of the excellent track record offered by Algonquin.

Enter **Capital Power Corp.** (TSX:CPX). The company operates electrical-generating stations in addition to wind and solar development sites. The fantastic news right from the get-go is that the dividend yield is much more than 4.8%. Capital Power currently offers investors a yield close to 6.25%, and investors can purchase shares for approximately $25 each.

Over the past four fiscal years, the dividends per share paid to investors were $1.26 (2013), $1.31 (2014), $1.41 (2015), and $1.51 (2016). For the first two quarters of fiscal 2017, the dividends paid per share were $0.39 in each quarter in line with previous expectations. Since 2014, the dividend increases have occurred in the third quarter of the year.

By looking at Capital Power's history, we can calculate the dividend growth to be a compounded annual growth rate (CAGR) of 6.21%, translating to a new quarterly dividend of $0.415 per share. The total dividend for 2017 should total $1.61 per share. Investors buying today may receive a forward yield of 6.4% on a company in a defensive industry.

Investors need to consider the sustainability of the dividend. Given the long-term nature of the utility business (and the capital expenses), the payout ratio needs to be calculated from cash flow from operations (CFO) rather than from net income.

Capital Power's dividend as a percentage of CFO over the past four years was 16.5% (2013), 23% (2014), 30.5% (2015), and 44% (2016). As the company matures, the total dividends paid are increasing. While CFO varies from year to year, it is important to note the 2016 CFO was the lowest of the previous four years. Investors need not be concerned.

While the power-generating industry has performed fantastically over the past five years, not all companies are created equal. With Algonquin firing on all cylinders for many years now, the competition (and investors) now know what is possible. Here's hoping the management at the competition have also been paying attention.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:AQN (Algonquin Power & Utilities Corp.)
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Date
2025/08/23
Date Created
2017/05/09
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