Is Algonquin Power & Utilities Corp. Still a Good Buy?

Description

Since the beginning of the year, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) has performed fantastically well. Shares, which began the year near the $11.50 mark and offered investors a dividend yield close to 5%, have increased to a price of approximately $13.50 and still offer an excellent yield. Let's take a look at what has transpired since the beginning of the year and determine if investors should still be deploying new money into this investment.

For those not aware, Algonquin is a utility company which produces power. The company falls into the defensive category as the need to heat one's home and turn the lights on doesn't change much during economic expansions or recessions. Consumers are typically very consistent with how much energy is used in the home. The result of this consistency has meant a consistent increase in revenues, profits, and cash flows of operations (CFO). Patient investors have experienced large financial gains by holding this security.

The dividend, which is declared in U.S. dollars, has increased from US$0.1059 per share, per quarter to US$0.1165 per share during the first few months of fiscal 2017. While investors have received a pay raise close to 10% this year, shares have also risen close to 18% in only four-and-a-half months.

The challenge faced by new investors is still the same. They must decide if the company falls into the category of "vulnerable prey" as it may no longer be as attractive as it once was. The dividend has increased steadily over the past four years and accounts for close to 45% of CFO for fiscal 2016. Going into 2017, the 10% dividend increase will either increase the payout ratio or signal to investors that the CFO will be increasing by at least 10% as well. Confirmation will come over the next six months.

Let's look at what's in the books for 2017. The good news is, the first quarter saw a year-over-year increase in CFO close to 55%. The bad news is, net income fell from close to $30 million to approximately $5 million from Q1 of 2016 to Q1 of 2017. While cash flow has continued to increase steadily, total profitability was squeezed in the past quarter due to a recent acquisition which allowed the company a greater amount of depreciation expenses in comparison to the same quarter one year ago.

Looking at the technical indicators, the simple moving averages (SMAs) are pointing upwards. With the share price moving upwards consistently, both the 10-day and 50-day SMAs are playing catch up. The 200-day SMA is currently close to $12 and will probably continue to move up slowly for quite some time. With 200 days making up the average, investors can use this measure more as an investment gauge than as a trading gauge. Remember: we invest for the long term!

For those looking for excellent opportunities, shares of Algonquin may still fit the bill. With a dividend yield close to 4.75% and still some room for capital appreciation, the company clearly has momentum going in the right direction. The question investors need to ask is, how much longer will the momentum continue?

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ryangoldsman