



Pick of the Decade: Algonquin Power & Utilities Corp.

Description

Algonquin Power & Utilities Corp. ([TSX:AQN](#))([NYSE:AQN](#)) is my top pick for a stock that will outperform the vast majority of the equity issues on the TSX over the coming decade for a few fundamental reasons. Algonquin may not be a name every Canadian investor knows; however, it is one that I believe should at least be considered by any investor with a long time horizon and a penchant for obtaining capital appreciation and generating income over time.

Impressive earnings growth

Utilities companies are, by definition, boring entities. Algonquin is no exception — its portfolio of assets resembles many of its competitors' with a few primary exceptions: namely, asset quality and earnings generation over time. Over the past four years, Algonquin has had a compounded annual growth rate (CAGR) of earnings attributable to shareholders of 68.5%. Its earnings per share have also increased on the order of 48.7% CAGR over the same period due to some dilution with respect to new equity issuances.

These phenomenal results are just simply not “par for the course” with respect to other Canadian utilities companies. While I do like a few other utilities with valuable asset bases, such as **Fortis Inc.**, Algonquin has a stable of unique assets (including water utilities) which have proven to produce above-average returns consistently over time, and I believe they will continue to do so over the long term.

Fundamentals support valuation

Algonquin stock has traditionally traded at a premium to the market since its inception largely due to the aforementioned earnings-growth capability coupled with the safety of the utilities industry relative to high-growth sectors. As investors continue to look at the future earnings potential of Algonquin, it becomes clear that the “rich” sticker price of Algonquin stock over time is not at it seems. At current levels, a trailing price-to-earnings (P/E) ratio hovering around 40 may seem expensive to some; however, its forward P/E of just above 18 makes it seem relatively cheap, given the long-term prospects of this company.

Stable, growing dividend very valuable

In addition to Algonquin's impressive base of assets and earnings generation supporting the company's long-term fundamentals and valuation, the utilities company also boasts a dividend yield of 4.7% (which has decreased of late due to capital appreciation with respect to its stock price increasing over time). This dividend yield has exceeded 5% in recent years; however, its five-year average yield sits almost squarely at 4%.

One reason Algonquin has been able to maintain such a relatively high yield over time can be seen in the CAGR of its dividend distributions over time; the company has grown its dividend by 33.8% each year, yet another driver behind this company's seemingly meteoric price appreciation since Q4 2009 (almost tripling over this time frame).

Bottom line

In this relatively frothy market, I very rarely come across a company I can get excited about. Algonquin is an exceptional gem in a market which, in my opinion, is filled with mostly overpriced issues.

Stay Foolish, my friends.

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