



Thirsty for Water Assets? Buy Algonquin Power & Utilities Corp.

Description

Algonquin Power & Utilities Corp. ([TSX:AQN](#))([NYSE:AQN](#)) has been a huge winner over the past five years. The stock more than doubled during this span, while paying a very generous dividend which hovered around the 4.5% level. Algonquin is one of a few companies where you have large amounts of capital appreciation to go with a huge dividend.

The company owns a diversified portfolio of North American utility assets and is a great way to solidify your portfolio if you're looking for a defensive holding. Algonquin has exposure to renewables through its hydroelectric, wind, solar, and thermal power facilities, as well as a promising water-distribution business, which I believe is one of the most stable businesses for decades to come.

Dr. Michael Burry, the man who called the real estate bubble before the Financial Crisis, has been focusing his efforts on water. As a Canadian investor, there aren't many options out there if you're looking to invest in water. Sure, you could buy a water utility on the American exchange, but then you'll have to play the forex game with an abysmal conversion rate. Over the long term, I believe the Canadian dollar will rise relative to the U.S. dollar, so it's probably a better idea to invest in Canadian companies, at least for now.

Algonquin owns some terrific water assets, so you don't have to wander south of the border if you're thirsty for water exposure. The company continues to make acquisitions to strengthen its water utility business, which will provide the company with a very steady stream of free cash flow in the years to come. Last year Algonquin bought a water distribution company in a deal worth US\$327 million; the deal adds three water utilities that serve over 74,000 customers in the states of California and Montana.

These water utilities come with extremely wide moats. It's very unlikely that a competitor will suddenly decide to create their own water distribution infrastructure to compete directly with Algonquin. It's just too expensive, and there are too many obstacles to prevent a competitor from jumping in.

What about valuation?

Algonquin owns some unique assets, and it's got an impressive earnings-growth profile. The management team is shareholder friendly, and it's likely that the company's generous dividend will

continue growing over the long haul. Because of this, Algonquin trades at a premium, but don't let that scare you away.

This premium is worth every penny because you're getting solid growth and top-tier assets that will make you a huge winner over the long term.

The stock trades at a hefty 38 price-to-earnings multiple, which may seem ridiculous for a "boring" utility, but I don't think the company is as overvalued as the high price-to-earnings multiple would suggest. Algonquin had an incredible run this year, so I'd wait for a dip that'll drive the yield at about 5% before loading up on shares.

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