



Has the Momentum Run out of Algonquin Power & Utilities Corp?

Description

Over the past six to eight months shares of **Algonquin Power & Utilities Corp** ([TSX:AQN](#))([NYSE:AQN](#)) have been on an incredible run. Touching a low price of \$10.47, shares have since rebounded to a price as high as \$14.35 only to fall back to around \$14. Currently offering a dividend yield slightly above 4.5%, investors buying today may not be getting a whole lot more.

When shares traded at a price of \$11 per share, the dividend was slightly above 5% which was subsequently raised by a penny per share while the stock price continued to move forward. Although shares may have peaked in the short run, it is difficult to believe that this story is all but over. In the defensive business of producing electricity, this utility company is one of the most defensive companies available in this category.

For investors who are unfamiliar with the term, defensive companies are characterized by having minor variances in revenues and earnings during good or bad economic times. Cyclical companies on the other hand have very large fluctuations in revenues and earnings depending on the phase of the economic cycle.

After looking at the price history of Algonquin Power & Utilities Corp over the past year, it is clear that the stock has gotten ahead of its own momentum. Although shares have traded consistently above the 10-day simple moving average (SMA), rarely was there a major gap up until the past few weeks. The result of this has been a pullback which has sent shares under the 10-day SMA and now the 50-day SMA is starting to catch up. This may not be a good sign.

What investors need to understand from moving averages is just how momentum has time to pause and restart before the failure to do so becomes detrimental and shareholders then fear a reversal – shares decline. Currently the large leg up has led to a minor reversal which could continue down further.

Considering the future of the company, the incredible returns of 30% or more in less than one year may be behind us. Instead, the stock may offer investors an appropriate return made up of a dividend yield closer to 4.5% and minor capital appreciation. A return of 10% per year on a defensive utility

stock is very good.

Looking at the dividends paid, the payout ratio as a percentage of cash from operations (CFO) has been 44.5% in 2016 and 34% in 2015. After purchasing another competitor in the space, the amount of dividends paid for the first quarter of 2017 total \$32.5 million out of CFO of \$83.8 million. The percentage is 38.8%.

The most obvious catalyst for investors to experience another bull run for shares of Algonquin Power & Utilities Corp would be another increase in the dividend. Assuming the payout ratio increases to a percentage in line with the 2016 amounts, shares could potentially rise again. Barring that however, investors may need to be very patient.

CATEGORY

1. Dividend Stocks
2. Investing

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