



## Algonquin Power & Utilities Corp. Has a Huge Moat Filled With Water

### Description

**Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) has been a fantastic business to own for investors looking to grab a high dividend yield to go with a huge amount of stock price appreciation. The company is firing on all cylinders when it comes to growth, and it's possible that it can support even more dividend raises on an annual basis over the next few years.

Algonquin owns some unique utility assets and is a great defensive way to win over the long term, regardless of what kind of market we're in. To the income investor who cares about capital appreciation, the stock is the best thing since sliced bread, but shares have surged by over 111% over the past five years, and the valuation has become stretched. Should prudent investors start trimming with the intention of buying more shares on a future dip? Or are Algonquin's growth prospects worthy of its hefty price tag?

At the time of writing, Algonquin shares are just 2% off all-time highs with a juicy 4.59% dividend yield. The company just beefed up its portfolio last year with several smart acquisitions that are likely to support further annual dividend increases in the coming years.

### Algonquin has a moat ... filled with water

One thing that's unique about Algonquin is its incredible portfolio of water assets, which I believe offers one of the most stable cash flow streams that anyone could ask for. Water is a precious commodity that many investors may overlook mainly because there aren't many offerings available on the TSX for those who are thirsty for water assets. Algonquin really is one of the few choices that investors have if they want to invest in water utilities, and because of that, a huge scarcity premium can be expected.

The company recently bolstered its water portfolio with the acquisition of a water distribution company for US\$327 million. This deal gives Algonquin three water utilities that currently serve about 74,000 customers in the U.S. Going forward, it's expected that Algonquin will continue to find great deals to further improve its water utility business.

### Bottom line

Personally, I'm a huge fan of water utilities, and I believe they're worth the premium valuation. Algonquin is one of the few stocks that can offer a high dividend yield, dividend growth, stability, and capital appreciation. The stock has been a top performer over the past few years, and there's reason to believe the same can be expected from the company in the years ahead.

The stock currently trades at a 38.43 price-to-earnings multiple, a two price-to-book multiple, a 3.2 price-to-sales multiple, and a 13 price-to-cash flow multiple, all of which are higher than the company's five-year historical average multiples of 33.6, 1.8, 2.6, and 12.7, respectively. So, the company isn't cheap compared to industry averages or historical averages, but if you're an investor with a time horizon beyond five years, you'll still do very well by picking up shares right now.

I would buy about a quarter of your position today with the intention of buying more shares on any signs of weakness that may happen going forward. The stock is hot right now, so you can minimize your downside by continuously adding to your position over time.

Stay smart. Stay hungry. Stay Foolish.

## **CATEGORY**

1. Energy Stocks
2. Investing

## **TICKERS GLOBAL**

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
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