



## Should You Buy This High-Growth Utility on the Dip?

### Description

If you've been looking for an entry point in a quality dividend stock, you may want to consider **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)).

The shares of the high-growth utility have dipped about 7% from its recent and all-time high of about \$14 per share. Are the shares a good enough value for a bite today?

#### A quality business

Algonquin generates 75% of its earnings before interest, taxes, depreciation, and amortization (EBITDA) from its regulated electric, gas, and water utilities and 25% of its EBITDA from its clean and renewable power generation.

Algonquin has a diversified customer base for its regulated utilities with 335,000 gas customers, 263,000 electric customers, and 159,000 water customers. It also has some electric and gas transmission assets.

In its power portfolio, Algonquin has 38 renewable and clean energy facilities spanning six provinces and eight states with a net installed capacity of 1,500 MW. Algonquin has 88% of these in wind (~16% of EBITDA), water (~5.5%), solar (~1.8%), and natural gas-sourced (~1.8%) generation under long-term power-purchase agreements (averaging 16 years) with inflation escalations.

So, the cash flow produced from this portfolio is pretty stable. Through 2021, the company plans to continue to invest in wind, which will expand the generation to ~20% of EBITDA.



### **Assets can increase by a half in five years**

Assuming an exchange rate of CAD\$1.20 to US\$1. The company has about \$5.6 billion of potential investments over the next five years split between its regulated utilities (~64% of investments) and its power portfolio (~36%). If all goes according to plan, these will boost the company's assets by roughly 50%.

### **Dividend and dividend growth**

Because a large portion of Algonquin's earnings is generated in the U.S. (currently about 92% of EBITDA), the company naturally started paying a U.S. dollar-denominated dividend in 2014.

Since Algonquin's earnings and cash flows are largely regulated or contracted, management confidently estimates it will grow its dividend per share by 10% per year through 2021.

At about \$13, Algonquin offers a yield of roughly 4.6%. Investors should be aware that the utility's dividend yield and dividend growth will fluctuate with the strength of the Canadian dollar against the U.S. dollar. The stronger the U.S. dollar, the higher the effective yield and effective dividend growth and vice versa.

### **Is Algonquin a buy today?**

The shares are reasonably valued today. A recent **Thomson Reuters** report indicates a 12-month mean target of \$14.40 per share on the stock, which represents about 10.7% upside potential and total returns of about 15% for the near term. Conservative investors can consider taking a bite here and buy more on any further dips.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

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

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### **Date**

2025/08/10

### **Date Created**

2017/07/12

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