



Algonquin Power & Utilities Corp.: My Top Stock Pick for August

Description

On a monthly basis, contributors of the Motley Fool are asked to submit their best pick for the stock of the month. For August, I selected **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)). Not only is it my favourite stock for the month, but it also holds a significant amount of upside over the long term.

Closing July at a price of \$13.33, shares currently offer investors a yield of close to 4.5%, which is paid in U.S. dollars on a quarterly basis. What has made shares of the company pull back from ~\$14 highs during June was the increase in the Canadian dollar versus the U.S. dollar. To keep the yield consistent when measured in Canadian dollars, the share price had to decrease to offset the change in foreign exchange.

Algonquin operates in the utility business, providing electricity to homes and businesses. Regardless of the economic cycle, consumers will need to cool their homes in the summer and heat them in the winter. Revenues and earnings will be very consistent over time. With a business model where demand (and revenues) increase when it gets too hot or too cold, this may be a fantastic play for long-term investors seeking regular income.

When considering the technical indicators, the company, which saw the share price decline to less than the 50-day simple moving average (SMA), has remained handsomely above the 200-day SMA. That can be taken as a temporary pullback, allowing investors another entry point before it continues to move upwards.

Over the past several weeks, another headwind has been the increase in the risk-free rate of return. For income-seeking investors, the spread between the risk-free rate of return (from government debt securities) and the income provided from this security has shrunk. As investors are required to take on the same amount of risk for a reward which, comparatively speaking, was higher, they may be reconsidering their options; the additional risk is no longer worth it, and investment dollars are flowing elsewhere.

There is a high enough probability that investors will reconsider the risk-free investments offered to

them and return to Algonquin in addition to the market potentially getting riskier in earnings season. Given the number of companies that have reported earnings and the results which have followed, investors may feel more comfortable by opting for investments that are categorized as defensive or less risky.

Although the summer has yet to be a real scorcher, investors can rest assured that winter will eventually arrive in the country, and the heat will turn on yet again. The pullback in Algonquin's share price may only be positive.

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1. Dividend Stocks
2. Investing

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Date

2025/08/27

Date Created

2017/08/04

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