Another Reason Algonquin Power & Utilities Corp. Could See Increased Investor Demand

Description

One of the big selling points for many companies with above-average dividend yields is having the option to choose to receive shares in exchange for the traditional cash payments that take the form of most dividend distributions. **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) is a Canada-based utilities company which has done just that, maintaining a dividend-reinvestment plan (DRIP) for Canadian investors since 2011.

This DRIP program allows Canadian investors to elect to receive the company's quarterly dividends in the form of Algonquin Power shares in lieu of cash — a program which allows growth investors or long-term investors a low-cost way of reinvesting cash that would otherwise be reinvested over time each and every quarter.

Last week, Algonquin Power announced that it would officially be extending its DRIP to U.S. investors, broadening the scope of the company's reinvestment plan.

Here's why this announcement matters.

The benefits of a DRIP that are commonly cited are (1) satisfaction among an investor base looking to hold a long-term position in a company such as Algonquin Power that will grow over time; and (2) shares issued for a DRIP are over and above the current allotment of shares (or taken from treasury shares which have been bought back), allowing for the company to pay a dividend without subtracting from the company's cash position.

For a company such as Algonquin Power with a very manageable debt load, having cash available to continue to make dividend payments is very unlikely to be a problem moving forward. While often considered to be a prudent cash management tool, a DRIP can allow a growth company such as Algonquin Power to continue growing rapidly, freeing up cash for potential acquisitions or profit-generating activities.

The potential downside to utilizing a DRIP over time is simply dilution. With shares consistently being issued each and every quarter to investors, unless the underlying operating business continues to generate substantial growth exceeding the share dilution experienced by the DRIP, or the company engages in a share-buyback program to offset the DRIP, it is possible to see the corresponding share price decline over time due to dilution amid slowing earnings.

I don't see either scenario playing out for Algonquin Power and, in fact, believe that a share-buyback program is more likely to manifest itself in the future should any of these concerns show up among the company's investor base. In the meantime, with a more robust U.S. investor base potentially buying into AQN as a result of the company's decision to move forward with a DRIP on the NYSE, I expect the net benefit overall of this move to be a positive one for the organization.

Stay Foolish, my friends.

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