Growth Investors: This Utilities Company Boasts the Most Growth

Description

The utilities sector is not typically one investors go to looking for growth; rather, they look for yield and safety. In general, it is true that utilities companies tend to carry low average rates of profitability when compared with companies in other industries, supported by high levels of debt and high exposure to interest rate movements.

In that regard, near-term risks in some cases may seem to outweigh the long-term growth potential of acquisition-focused firms such as **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN), as can be witnessed in the company's short-term plateau the market has found with this specific utilities company of late.

For companies such as Algonquin that engage in a continuous stream of acquisitions each and every quarter, it is understandable that some of the announced acquisitions can slip under the radar. Last week, for example, Algonquin made a US$70 million purchase of a regulated natural gas distribution company owned by a subsidiary of **Enbridge Inc.**

This cash deal (less assumed debt) will increase Algonquin's natural gas distribution business by approximately 5% (an additional 16,000 residential, commercial and industrial customers), adding New York to the list of states currently serviced by Liberty Utilities's (a division of Algonquin) natural gas distribution arm — a list which currently include six states located on the East Coast and Mid-West.

From a long-term perspective, as long as a utilities company such as Algonquin is able to continue to increase free cash flow and accretive earnings from the acquisitions the company engages in, while simultaneously keeping the business's leverage ratios within a reasonable range, investors should buy such a company and hold on for as long as possible. The ability to very accurately gauge what the long-term profitability of an acquisition will be and build a portfolio of positive NPV acquisitions is an advantage that utilities companies have from a long-term perspective.

To clarify, not all acquisition-growth models are the same. Many biopharmaceutical companies, such as **Valeant Pharmaceuticals Intl Inc.**, are examples of the downside of such growth models; after all, such acquisition models are much riskier over the long term in industries that require acquirers to pay exorbitantly high premiums in addition to piling on significant debt loads, especially when cash flows from such acquisitions are sufficiently uncertain.

Here is where companies such as Algonquin has the advantage: certainty of cash flows (and profitability) as well as certainty of interest payments to be made on debt (bonds) creates net increases in accretive cash flow, which benefits long-term investors in perpetuity, assuming very long life spans for the company's asset base.

Perhaps investors expect these acquisitions to keep rolling in, or perhaps the current growth expectations are already baked in to Algonquin's share price. Whatever the case, I expect this company to outperform in the medium to long term due to Algonquin's management team keeping their foot on the gas pedal. It's one company I don't expect to slow down any time soon, making the recent dip in Algonquin's stock price an attractive entry point for long-term investors.

Stay Foolish, my friends.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/02
Date Created

COMPANY NAME
Address | Phone | Link | Email

2017/09/06
Author
chrismacdonald