Investors: Looking for a Juicy 4.4% Yield With an Earnings-Growth Rate of Nearly 70%?

Description

Since 2013, few companies on the TSX have exhibited the growth characteristics of **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN). The Canada-based utilities company has undertaken an aggressive growth strategy within a sector which has typically been reserved for businesses with stable, consistent, and, some would say, boring business models. After all, providing utilities services has traditionally been the mandate of the capital-intensive, low-return, large, blue-chip utilities companies in North America.

Where Algonquin has thrived, however, is in providing very regionalized services to underserved populations throughout North America, taking advantage of the need of many municipalities to privatize key utilities functions — functions that may otherwise cost taxpayers substantially more when run internally than when provided by a private firm. Whether we are talking about electricity, natural gas, or water management utilities, Algonquin is in an enviable position as a company which is able to raise substantial amounts of money at low interest rates, investing said funds into projects that typically have contracts with guaranteed levels of profitability for long periods of time.

For example, many of the projects that the company's wholly owned subsidiary Liberty Utilities invests in are assets that are at or below book value, bought with a combination of assumed debt and cash, with agreements to provide services for a set amount of time (typically averaging close to two decades) with a legislated level of profitability. Many of the company's water assets return guaranteed profit margins in the high single digits to low double digits, allowing the company to continue to grow earnings organically over time as the business continues to reinvest in its core asset base.

As Algonquin invests more in said utilities, its contracts allow for rates to rise to a "reasonable" level, typically mandated in a legislated contract. By investing in new businesses, or simply reinvesting in the company's existing asset base, Algonquin is able to continuously improve its asset base while providing higher earnings numbers each and every quarter at a stable (nearly guaranteed) level of profitability, which competitors struggle to meet.

Bottom line

With a compounded annual growth rate of earnings attributable to shareholders of 68.5% over the past four years and a dividend yield currently hovering around 4.4%, it is understandable to see why Algonquin has nearly doubled in terms of market capitalization over the past five years.

The company's unique growth model combined with a recent dip in the company's Toronto-based shares due to a rise in the value of the Canadian dollar provide a very attractive entry point at the current stock price of about $13.

My five-year target price for Algonquin remains $25 per share based on the company's impressive growth potential and ability to do so in at a nearly guaranteed (and reasonably robust) profit margin.

Stay Foolish, my friends.

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Date
2025/08/02
Date Created
2017/10/04
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