What a Fabulous Dividend Stock Looks Like

Description

Algonquin Power & Utilities Corp. (TSX:AQN)(NYSE:AQN) has been a pleasure to hold for long-term, risk-averse investors. Its growing earnings and cash flow have delivered price appreciation and rising dividends.

Algonquin's profitability comes from its regulated utility operations, which distribute electricity, natural gas, and water to a total of 758,000 customers across 12 U.S. states. These operations contribute about 75% of Algonquin's earnings before interest, taxes, depreciation, and amortization.

Algonquin also has a net installed capacity of 1,500 MW of renewable power generation, of which 88% is under long-term power-purchase contracts with inflation escalations.

Algonquin is becoming more valuable

Usually, shareholders prefer outstanding shares of their holdings to decline because a bigger share count typically implies they own a smaller piece of the companies.

What’s interesting about Algonquin is that its share count has more than doubled since the end of2012. However, its profitability has continued to grow on a per-share basis.

In the past three years, Algonquin’s earnings per share increased at an annualized rate of 28%, and its operating cash flow per share increased by 30% per year.

Because the company is earning more, it’s becoming more valuable. This has ushered its share price to appreciate over time. Since the end of 2013, Algonquin has delivered an annualized rate of return of 22.8%. This is thanks to price appreciation as well as its growing dividend.

Sharing wealth with shareholders via a growing dividend

A part of the reason for Algonquin’s outstanding returns is the utility’s nice yield and growing dividend. At the recent quotation of $14.35 per share, Algonquin offers a decent yield of ~4.1%.

Notably, the utility pays out a U.S. dollar-denominated dividend. So, its yield will not only fluctuate with the share price, but also fluctuate with the change in the foreign exchange between the U.S. dollar and the Canadian dollar. A stronger U.S. dollar against the Canadian dollar at the time the dividend is paid will result in a bigger dividend for Canadian shareholders.

Algonquin has increased its dividend for six consecutive years with a three- and five-year dividend-growth rate of 7.6% and 8.9%, respectively. Its quarterly dividend is 10% higher than it was a year ago. Investors will be delighted to know that Algonquin believes its earnings and cash flow growth will allow it to continue growing its U.S. dollar-denominated dividend by 10% per year through 2021.

Investor takeaway

With its stable, growing profitability, Algonquin is a conservative, long-term investment. The Street consensus 12-month mean target from **Reuters** is $15. So, the stock is fairly valued today.

Algonquin has appreciated ~34% in the last 12 months. Since June, Algonquin has been trading in a sideways channel. Long-term investors can aim to buy at the low end of the channel, or roughly $13.50 per share. Investors looking for a bigger margin of safety should wait for a bigger dip.

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