

Looking for Long-Term Gain and Short-Term Stability? Consider This Utilities Company

Description

The Canadian utilities sector, as with utilities in other countries around the world, has begun to significantly pull back in recent months, as investors continue to digest the impact that rising interest rates and bond yields will have on sectors such as utilities which act as bond proxies in a rising interest rate environment. Many investors and analysts expect a bear market in bonds and fixed-income securities, with significant spillover into sectors such as utilities, but in this article I'm going to focus on one utilities company I believe could outperform in the long run and stay stable in the short run due to a number of factors.

Algonquin Power & Utilities Corp. ([TSX:AQN](#))([NYSE:AQN](#)) is a Canada-based utilities company with significant operations in the U.S. market. The fact that the company earns the vast majority of its income in the U.S. market, as I have stated before, is a huge headwind for this company, as U.S. tax reform continues to modify earnings prospects for companies earning U.S. revenue, and as such, I have much higher forecasted earnings for Algonquin than many of the analysts' reports I've read for this reason alone.

Algonquin is also unique when considering Canadian utilities in that the company pays a dividend denominated in U.S. dollars. By having a U.S. dollar-denominated dividend, along with revenues and earnings which are largely attributed to the U.S. market, a rising U.S. dollar (or depreciating Canadian dollar, depending on how you look at it) would benefit Canadian investors buying Algonquin on the Toronto Stock Exchange. My forecast for the Canadian dollar in the medium to long term is closer to its long-term average in the low to mid \$0.70 range, and with the Canadian dollar currently hovering above US\$0.81, a substantial move lower would also greatly impact Canadian investors in the TSX-traded Algonquin equity.

Algonquin's asset base and power-generation contracts are also able to stand the test of time due to the fact the company's asset base has a relatively long anticipated life span, and the company is locked into a number of long-term power-generation contracts supported by long-term bonds, which have been secured at lower rates, making a nearly guaranteed profit on most of the company's power-generation activities. The stability and security Algonquin provides investors has also been augmented by various renewable energy plays, which I believe will become more valuable in the long term, increasing the attractiveness of this company's growth profile long term for me.

Bottom line

Rising rates will certainly hurt most Canadian utilities companies, with the exception of a few. Algonquin is, in my opinion, one of those exceptions.

Stay Foolish, my friends.

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