

This Utility Just Increased its Dividend by 10%

Description

Income investors should have a good portion of their stock portfolio in utilities, such as **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)), which [increase their dividends](#) over time.

Algonquin just came out with its first-quarter results and increased its dividend by 10%, as it previously stated it would.

Algonquin’s Q1 results

In the quarter, the company [expanded outside North America](#) via the AAGES Joint Venture with **Abengoa S.A.**, a Spanish company. Notably, Algonquin still has more than 90% of its assets in the United States and derives more than 90% of its revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) from the United States.

At the end of March, Algonquin put a 75 MW solar facility in Maryland into service. Its power portfolio consists of about 1,500 MW of net generating capacity of largely (about 70%) wind assets. The portfolio makes up ~30% of Algonquin’s assets.

Here are some key metrics compared to the same period in 2017:

| | Q1 2017 | Q1 2018 | Change |
|---------------------------------|-------------------|-------------------|--------|
| Revenue | US\$421.7 million | US\$494.8 million | 17% |
| Adjusted EBITDA | US\$192.3 million | US\$279.2 million | 45% |
| Adjusted net earnings per share | US\$0.19 | US\$0.32 | 68% |
| Adjusted funds from operations | US\$156.7 million | US\$179.9 million | 15% |

The company expects further progress on “greening the fleet” through the development of 600 MW of wind energy generation for its regulated utilities in the Midwest region, which should lead to huge customer savings and improved sustainability.



Algonquin's other assets

Algonquin's other core business is its regulated utilities. It has electric, natural gas, water distribution, wastewater collection utility systems, and transmission operations, which serve 762,000 customers across 12 U.S. states through 33 utilities. Algonquin's regulated utilities make up ~70% of its assets.

Algonquin offers a dividend yield of +5% and double-digit upside

Algonquin has shown the ability to grow its dividend over time. Specifically, it has increased its dividend per share for seven consecutive years. Its five-year dividend-growth rate is 9.6%.

To shareholders' delight, the company just announced a dividend hike of 10% for its Q2 dividend — a quarterly dividend per share of US\$0.1282, which implies an annualized dividend per share of \$0.5128. So, Algonquin is good for a yield of 5.1%.

Thomson Reuters Corp. has a mean 12-month target of \$15.10 per share on the stock, which represents 18% upside potential from the recent quotation of \$12.75 per share.

Investor takeaway

In the medium term, Algonquin aims to grow its earnings per share by 8-12% per year. Since it has a sustainable payout ratio, shareholders can reasonably expect it to grow its dividend in that range as well. At its recent quotation, Algonquin is reasonably valued, good for a 5.1% yield, and offers double-digit upside potential.

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