



Is the 5% Yield in This Utility Good Enough?

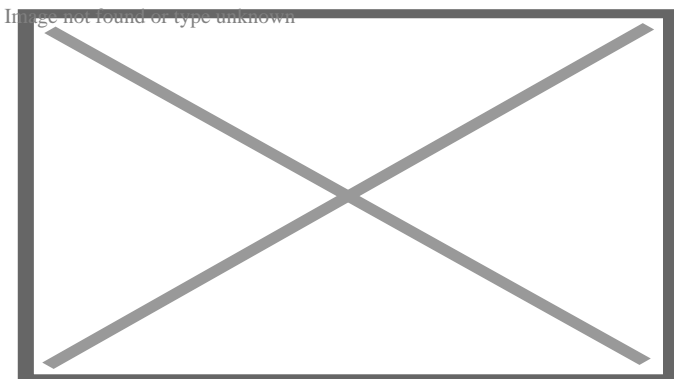
Description

Algonquin Power & Utilities ([TSX:AQN](#))([NYSE:AQN](#)) is doing its job as a stable utility in any portfolio. Despite the market correction from October, the stock has essentially stayed where it was from a year ago. You'll notice that on the NYSE the stock declined about 7% in that period. This indicates that the strong U.S. dollar against the Canadian dollar has helped lift the stock on the TSX.

Dividend and dividend growth

[Dividends](#) are a big reason for holding utilities. At \$13.55 per share as of writing, Algonquin offers a yield of just over 5%. The utility pays out a U.S. dollar-denominated dividend, which equates to an annualized payout of US\$0.5128 per share.

So, if the Canadian dollar strengthens against the U.S. dollar, your payout will decline from current levels if you're receiving the dividends in Canadian dollars. Along the same train of thought, the dividend growth will be slower as well.



Algonquin's five-year dividend-growth rate is 9.4%, while its quarterly dividend per share is 10% higher year over year. Its recent payout ratio was about 80% of adjusted earnings. Its payout ratio has come down substantially from about 127% in 2013. So, its dividend is safer than it was before.

Recent key financial results

To get a sense of Algonquin's scale, let's take a look at some of its recent financial information compared to the same period in 2017.

	Q1-Q3 2017	Q1-Q3 2018	Change
Revenue	US\$1,112.5 million	US\$1,227.5 million	10.3%
Adjusted EBITDA	US\$497.1 million	US\$603.7 million	21.4%
Cash from operations	US\$210.6 million	US\$361.7 million	71.7%
Adjusted net earnings	US\$158 million	US\$241.6 million	52.9%
Dividends declared to common shareholders	US\$135.4 million	US\$172.4 million	27.3%
Adjusted net earnings per share	US\$0.41	US\$0.52	26.8%
Diluted earnings per share	US\$0.26	US\$0.29	11.5%
Total assets	US\$8258.6 million	US\$9072.6 million	9.9%
Long-term debt	US\$3,553.7 million	US\$3561.3 million	0.2%

The increase in assets has roughly matched the increase in revenue, while profitability increased even more with adjusted EBITDA, adjusted earnings per share, and diluted earnings per share up by about 21.4%, 27.3%, and 11.5%, respectively.

Notably, though, the diluted earnings per share in the three quarters did not fully cover the dividends declared in the period. Based on diluted earnings per share, the recent payout ratio would be about 129%. This makes Algonquin's dividend less safe than **Fortis's** and **Emera's**, as their dividends are covered by diluted earnings. Algonquin's debt-to-asset ratio improved from 43% to 39.3% in the period.

Investor takeaway

There's little near-term upside in Algonquin stock according to analysts. **Thomson Reuters** has a mean 12-month target of US\$10.80 per share on the stock, which represents near-term upside potential of about 5.3%. If you're looking for value and total returns, I suggest you [look elsewhere](#). That said, the utility offers a yield of roughly 5% which seems safe.

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