This Electric Utility Just Hiked Its Dividend by 10% — Now's the Time to Buy

Description

Historically low interest rates, weak bond yields and the threat of another rate cut have sparked a hunt for yield among retirees and other income hungry investors, triggering a surge in popularity of dividend paying stocks, especially those with solid yields in excess of 4%. One that stands out for all the right reasons and qualifies to be a Canadian Dividend Aristocrat is energy utility **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN).

The company recently hiked its dividend, making this the eighth year straight in which it has increased the payment to yield just under 5%. This, along with its defensive characteristics, including a wide economic moat make Algonquin an ideal investment for those investors seeking to build a steadily growing recurring stream of passive income.

The utility even hiked the dividend despite softer first-quarter 2019 results. Algonquin's adjusted funds from operations (FFO) dropped by 4% year over year to US$173.5 million, while adjusted EBITDA plunged 17% to just under US$232 million and adjusted net earnings of US$94 million was 33% lower. Those weaker results were caused by the inability to pass higher commodity costs onto customers and reduced electricity production from its renewable and thermal facilities.

Nonetheless, earnings will grow over the remainder of 2019 and into 2020 because of Algonquin's corporate development activities. The company's subsidiary, Liberty Utilities Group, received authorization in Arkansas to construct 600 megawatts (MW) of wind energy generation, and Algonquin won the bid for constructing a high voltage transmission line project in the South American nation of Uruguay.

Algonquin also recently announced the US$365 million acquisition of **Bermuda Electric Light Company,** which is expected to close later this year and be immediately accretive to the company's 2020 earnings. That deal further diversifies Algonquin's earnings outside of North America, creating a platform for further expansion into the Caribbean.

Algonquin has a significant pipeline of renewable energy projects under development, with over 1,000 MW of capacity expected to be commissioned between now and the end of 2022. These will further cement the utilities place as a leading source of clean renewable electricity, giving its earnings a solid boost.

The secular trend to expand the amount of energy generated from renewable sources globally will serve as a powerful tailwind for Algonquin. Its focus on expanding its renewable electricity generation means that it isn't facing the significant costs involved with transitioning fossil fuel-fired power plants to cleaner sources of energy, which is weighing heavily on the outlook for many traditional electric utilities.

Algonquin also possesses a wide economic moat because of the steep barriers to entry for its industry which, when combined with the inelastic demand for electricity, virtually assures its earnings.

The company anticipates that EBITDA by 2023 will be almost US$1.4 billion, or 74% greater than the US$803 million reported for 2018. Such a large increase in earnings will support the sustainability of Algonquin's dividend and further annual hikes, making now the time for investors to buy Algonquin and lock in a 5% yield.

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Date
2025/07/21
Date Created
2019/06/10
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