



When a Recession Looms, Turn to This Utility Company for Protection!

Description

When everyone is talking about a recession being just around the corner, it would be prudent to shore up on companies that offer protection against a downturn. There's nothing better than a utility company with a strong record for this purpose.

Algonquin Power & Utilities ([TSX:AQN](#))([NYSE:AQN](#)) is one such company. It has developed and acquired long-lived sustainable assets that are built for the long term, and it has grown to over 70 power-generation facilities (electricity and natural gas) and utilities (water) in Canada and the United States.

Through its two subsidiaries, Liberty Power (formerly Algonquin Power) and Liberty Utilities, Algonquin has almost 800,000 customers in the United States and Canada with the U.S. accounting for a majority of them. Algonquin's businesses are two-fold: first is the distribution of water, natural gas, and electricity, and the second segment is the production of hydroelectric, solar, wind, and thermal.

With a dividend yield of 4.17%, Algonquin's presence in your portfolio will ensure that cash flow is continuous. The company has raised dividends for eight continuous years and, by all accounts, the trend seems set to continue.

[As Fool contributor Haris Anwar reported](#), the company manages more than 1,250 MW of installed capacity across the wind, solar, and hydroelectric generating facilities. About 70% of its earnings come from regulated utilities and 30% from contracted renewable power.

Company banking on renewables and acquisitions for future growth

At a time when countries across the world are focused on renewable energy, it bodes well for Algonquin that a third of its revenues come from renewables. On June 20, 2019, Algonquin's Liberty Utilities Group received certificates of convenience and necessity (CC&N) to acquire, once completed, three wind farms generating up to 600 MW of wind energy and located in U.S. Midwest.

Receipt of the CC&N allows construction to commence on the three wind generation sites. Construction of the wind farms is expected to begin in the third quarter of 2019 and will be completed by the end of 2020.

Algonquin has been on an aggressive acquisition path in the last few years. In early 2018, the company bought Empire District Electric, a regulated electric, water, and gas player with over 200,000 customers, for US\$2.4 billion.

On June 3, 2019, Algonquin announced an agreement to acquire, through **Ascendant Group**, Bermuda Electric Light Company, the sole provider of regulated electrical generation, transmission, and distribution services to approximately 63,000 residents and businesses in Bermuda. Closing of the transaction is expected to occur in late 2019.

With demand for green-energy stocks growing rapidly, Algonquin is sitting pretty and should go up as the trend grows stronger.

The verdict

Algonquin is estimated to grow revenue by 2.7% to \$1.69 billion in 2019. Sales growth is expected to accelerate to 10.1% in 2020. While the company's earnings are estimated to fall by 9.1% in 2019, they are expected to rise by 15% in 2020 and grow at an annual rate of 7.8% in the next five years.

Comparatively, the stock is trading at a forward price-to-earnings multiple of 26.5, which indicates that it is trading at a slight premium, even after accounting for its dividend yield. This might drive shares lower in a market sell-off. Analysts have a 12-month price target of \$18.3 for AQN, indicating upside potential of 35.6% from the current price.

Utilities are a recession-proof investment, as people need electricity, even during a downturn. It's clear that there's a lot of uncertainty in the world right now, and the Canadian economy could be in for a rough ride. Algonquin could provide a safety net and provide income at the same time thanks to its strong record of paying dividends.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/26

Date Created

2019/09/25

Author

araghunath

default watermark

default watermark