This Dividend Stock Is Perfect for TFSA Investors

Description

Want to use your TFSA to its full potential? Look no further than **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN).

You likely know that TFSAs shield your capital from taxes. Your money is protected whether the gains stem from dividends or capital gains.

Many investors choose between growth or dividend stocks to maximize their tax-saving potential, but in reality, the best option is to use *both* strategies. Stocks like Algonquin allow you to do just that.

Built for income

Regulated utilities are a great place to generate income. These businesses provide electricity, natural gas, or water to their customers in a specific area or region. Few localities need multiple power plants, so these companies often have the market to themselves, similar to a monopoly. Due to this power, the government often regulates their pricing to ensure citizens aren't gouged for their basic needs.

This regulation is a big advantage for utilities. While it caps potential pricing, it also institutes a pricing floor. Upside is limited, but so is downside. These regulations are often determined years in advance, so no matter what happens over the short term, regulated utility stocks have extreme visibility into their earnings and cash flows.

Roughly two-thirds of Algonquin's business is considered rate-regulated. That includes exposure to natural gas, water, and electricity markets. Its regulated businesses span 13 states and one province. The company continues to grow its regulated business through acquisitions and organic expansion, but it also has a hidden growth opportunity that many utilities are ignoring.

Invest for the future

Algonquin's regulated utilities help fuel a 3.5% dividend. That's smaller than several competitors because the company retains a portion of earnings to reinvest in its growing renewable energy portfolio, which is dominated by wind, solar, and hydro. Around one-third of the company's $9.2 billion capital expansion program, which covers the next five years, is dedicated to growing this renewable energy segment.

These earnings aren't strictly regulated, but management has strategically located its 53 renewable projects in areas suitable for long-term contracts. Already, 93% of its production is tied to long-term agreements, which have an average length of 15 years. Even though there isn't explicit regulation, this earnings stream is just as reliable as the fully regulated segment.

By taking a dual approach, investing in both regulated and unregulated opportunities, Algonquin is able to provide the best of both worlds. In 2019, EBITDA totaled $850 million. By 2024, management anticipates reaching $1.7 billion in EBITDA. Where else can you get reliable dividends *and* rapid growth?

In total, Algonquin should grow earnings by 15% annually over the next five years. The dividend, which has historically risen by 10% annually, should have no problem keeping pace.

Over the last five years, Algonquin stock has increased by roughly 500%. **Emera**, a competitor that focuses solely on regulated markets, has seen its shares rise by just 150% over the same period.

If you want to take full advantage of your TFSAs tax protections, look for a dividend-growth stock like Algonquin.

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rvanzo