The Top Stock Every Investor Should Own Heading Into 2021!

Description

Some stocks just seem to have it all.

This is certainly the case for one of my top picks on the TSX, **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN). In this article, I'm going to dive into a few of the key reasons I'm so bullish on this stock.

An excellent growth company

Warranted or not, there seems to be a pervasive feeling that utilities companies have a difficult time growing. I certainly think that much of this sentiment is warranted for most companies. This is because the regulated nature of how rates are set and the restricted ability of most companies to hike rates on a whim or expand margins materially can be problematic for growth. Growth tends to therefore come at a high price. Capital spending in this sector is a significant burden, and balance sheets often stretched.

In the case of Algonquin, this Canada-based utilities player has found its calling as a consolidator of unloaded assets in the regulated utilities and renewable power space.

The company has some of the best turnaround metrics for the companies it buys. Algonquin markedly increases the returns these assets provide via integration within Algonquin's system. The company's extremely talented management team has an incredible eye for undervalued assets.

Some of the renewable power assets the company has acquired in recent years testify to this. These acquisitions have allowed Algonquin to grow its cash flow and earnings at a sector-beating rate for some time. Algonquin has also financed much of this growth attractively. The company has used both well-timed equity issuances as well as bond issuances to generate impressive returns for investors. This thesis is evidenced by the stock price increase we've seen in recent years for this company.

Income is meaningful, particularly to Canadian investors

Algonquin's dividend yield has hovered around 4% recently — a testament to relative share price stability and dividend increases over time. These two factors are extremely bullish for long-term income

investors.

Because the underlying cash flows of this company are so stable, Algonquin's dividend yield is extremely safe. This also makes Algonquin's dividend one of the best on the TSX in my view. Additionally, Canadian investors ought to be aware that Algonquin's dividend is actually paid out in U.S. dollars, a fact which carries significance. For those without the ability to purchase U.S.-listed assets but want currency exposure to the U.S. dollar, this is a dual-listed company which essentially gives Canadian investors the best of both worlds.

The value argument is strong with this stock

From a value perspective, there is a lot to like about how shares of Algonquin are priced today. The company is trading around 20 times earnings and still remains relatively small. Algonquin has a market capitalization just north of $12 billion and a very long runway for growth long term. On a risk-adjusted basis, particularly given the highly defensive business model of Algonquin, investors in this utilities player are able to pick up one of the best risk-adjusted returns in the sector, according to my model.

Bottom line

Algonquin is a unique gem in the utilities sector. This stock really does have it all from a growth, income, and value perspective. I would highly recommend this stock as a core long-term holding. I would also suggest investors consider nibbling on any dips moving forward. This is not a company I expect to stay this cheap for much longer.

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1. Dividend Stocks
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Date
2025/08/19
Date Created
2020/12/16
Author
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