



Algonquin Power & Utilities (TSX:AQN): An Excellent Buy Amid an Uncertain Outlook

Description

The expectations of a quick economic recovery amid the pent-up demand drove the Canadian equity markets in the first week of January. However, as the month progressed, the concerns over speculative trading activities and weakening global economic outlook dragged the equity markets down. The **S&P/TSX Composite Index** is currently trading 0.6% lower for this year.

So, amid the uncertain outlook, I believe **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) could be an excellent buy, given its defensive utility business and investments in renewable energy facilities.

Strong track record

Algonquin Power & Utilities has classified its business into two segments, Liberty Utilities and Liberty Power. Liberty Utilities, which composes 70% of the company's businesses, provides water, electricity, and gas to around 1 million customers across the United States, Canada, Chile, and Bermuda. The remaining 30% of the company's business involves developing and operating renewable power generating facilities under Liberty Power. It sells the power generated from these assets through long-term PPAs (power purchase agreements), thus shielding its financials from fluctuating demand.

In the [first three quarters of this year](#), its revenue and adjusted EPS were stable compared to its previous year despite the pandemic's impact. Its adjusted EBITDA increased by 1%. Along with its defensive utility portfolio, the acquisitions drove the company's financials during the period.

Further, the company has delivered strong returns over the last five years, with its total shareholder returns standing at around 141%. Its strong fundamentals drove the company's stock price. From 2014 to 2019, the company's adjusted EPS has grown at a compound annual growth rate (CAGR) of 13.5%. Further, the company's board has raised its dividends at a CAGR of 10% over the last 10 years. The company currently pays quarterly dividends of \$0.2019, representing an annualized payout of \$0.808 and a dividend yield of 3.8%. With its dividend payout ratio for the last 12-months standing at around 72%, I believe the company's dividends are safe.

Growth prospects

The shift to renewable resources amid concerns over rising pollution levels, and newly elected President Joe Biden, a strong advocate of clean energy, have given a significant boost to the renewable energy sector.

Amid the favourable environment, Algonquin Power & Utilities has planned to \$3.1 billion in renewable assets and \$6.3 billion in regulated utility assets over the next five years. It has an impressive pipeline of projects that could increase its power generating capacity by 3.4 gigawatts.

Further, these investments could expand the company's rate base at a CAGR of 11.2% from 2020 to 2025. The company's management expects its adjusted EPS to grow at a CAGR of 8-10% during the period. Its financial position also looks healthy, with its liquidity standing at \$3 billion.

Bottom line

Last year, when the broader equity markets were down, Algonquin Power & Utilities delivered impressive returns of over 14%. Further, it has continued its upward momentum this year, with its stock price trading 1.7% higher. Despite the increase in its stock price, the company's valuation looks attractive. Its forward price-to-earnings and price-to-book multiples stand at 21.6 and 2.1, respectively.

Further, the company's low-risk, regulated utility assets provide protections from downside risks, while its investments in renewable energy assets offer high-growth prospects. So, [I believe Algonquin Power & Utilities could be an excellent buy amid an uncertain outlook.](#)

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