



This Top TSX Stock Will Soar as an ESG Renewables Play

Description

Investors looking at stocks that have the potential to outperform in the renewables space have come to the right place. In this article, I'm going to discuss why I think **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) is the best way to play this sector.

Secular tailwinds likely to remain in place for decades

The rise of Environmental, Social, and Governance (ESG) investing is here to stay. Investors are increasingly concerned with the carbon impact of their investments. Accordingly, companies like Algonquin that provide direct access to renewable power generation and distribution are getting the nod from retail and institutional investors alike.

The capital inflows into this sector are likely to remain elevated for a long time. Thus, I see real potential for multiple expansion to drive share prices higher over and above the reasonable growth potential these investments have. We're in the early innings of a very long bull market in renewable power generation, in my view. The incoming Biden administration's clear and aggressive environmental mandate all but cements this secular tailwind for the next four years.

Algonquin's fundamentals are top notch

Algonquin is a company I think is dirt cheap relative to its growth potential. The company has made well-timed acquisitions in the renewable power space that have turned out to be dirt cheap on a backward-looking basis. Simply put, this is the utilities company of the future.

Algonquin provides investors with a [healthy dividend yield](#) of 3.5% at the time of writing. I think there is substantial room for continued dividend increases over time. Indeed, Algonquin's business model supports its long-term cash flow growth potential.

Additionally, with approximately two-thirds of Algonquin's revenue derived from its regulated utilities business, investors can sleep well at night knowing the company's dividend and capital needs are well

covered. Investors should not underestimate the safety these cash flows provide. Indeed, the company's business model is extremely defensive. I think this is perhaps one of the best picks for defensive, long-term investors right now.

Bottom line

Algonquin's close yesterday at an all-time high is indicative of current sentiment around this utilities player. Indeed, I think this stock's potential is being recognized by investors domestically and around the world.

However, I also think Algonquin has a much longer runway for capital appreciation than many might think right now. Algonquin's valuation multiple still reflects its core regulated utilities business. Accordingly, If Algonquin's valuation reflected the company's renewable power assets, this stock would be trading at much higher levels. This is a growth play in a regulated utilities company's body. I think all defensive investors ought to consider this renewables gem today.

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