This Underrated Utility Is a Must-Buy

Description

When it comes to utility investments, there are a few key players on the market. Those options largely comprise massive behemoths that have a storied history with billions in assets. They also provide a juicy dividend to investors, which is one of the reasons why investors flock to those investments. **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN) represents an underrated utility with plenty of upside.

Why you really need an Algonquin

The first thing that needs to be mentioned is that Algonquin isn't your traditional utility. The company operates under two broad segments that cater to well over three million customers primarily in the U.S. but also the Caribbean. Those two segments include electricity generation and utility services.

While this provides two separate diversified and necessary revenue streams for the company, it is the electricity generation arm that warrants a closer view. Specifically, that segment boasts an impressive portfolio of facilities that are fully renewable. The renewable segment benefits from the same stable and recurring revenue model that traditional utilities operate under. In other words, the revenue stream is backed by regulated, long-term contracts known as PPAs (power-purchase agreements).

The difference or more specifically the *advantage* over those fossil fuel peers is that because Algonquin is already 100% renewable, it doesn't need to invest in large capital programs over its existing facilities. Instead, the company can invest in growth initiatives and continue to hikes its already impressive dividend.

This factor alone makes this underrated utility a scorching-hot buy for any portfolio.

Growth and income opportunities are everywhere

Algonquin has an established history of seeking out lucrative acquisition targets. A key example of this is the acquisition of the Bermuda Electric Light Company last fall. The deal provided Algonquin with an entry point to a new market, and with it came 36,000 customer connections to add to its already sustainable business.

The deal also helps fund the other advantage of Algonquin, its dividend. The company currently offers a juicy quarterly dividend that carries a yield of 3.88%. This puts Algonquin near the top of its utility peers in terms of its yield but comes without the massive capital injection those peers need.

By extension, this also means that Algonquin is able to continue bumping that attractive dividend.

Should you buy this underrated utility or wait?

Looking back over the trailing 12-month period, Algonquin is down just over 7%. Fortunately, considering the impact that the pandemic has had on nearly all businesses, that's hardly a concern for long-term investors. If we take a look at the prior two years, however, prospective investors can see a healthy 36% gain. That long-term potential only increases if we look further back. The five-year growth on the stock comes in at an incredible 91%, far outperforming its peers.

In my opinion, Algonquin is an excellent long-term investment that should be a core holding in every account, particularly with the upcoming RRSP deadline.

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