This Top Canadian Utilities Stock Is a Sneaky ESG Play

Description

Utilities stocks are all the rage these days. I mean, those concerned about the potential of volatility on the horizon are right to load up on these defensive names.

However, some utilities plays are better than others.

I'm going to highlight why I think **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) is one of the best picks in this space. Indeed, this stock has everything long-term investors want. It's a growth, value, and income play.

However, I think Algonquin is also a sneaky ESG play.

Let me explain.

ESG boom not usually a catalyst for utilities companies

Most utilities players are in relatively boring industries, with little in the way of catalysts.

Yes, these companies provide highly stable cash flows. They're extremely defensive, and pay high dividend yields. That makes them perfect holdings for retirement.

All those things are true about Algonquin. However, the company's rather large portfolio of renewables assets stands out as a unique reason to own this stock relative to its peers.

Indeed, approximately 35% of the company's revenue is derived from its renewables segment. Algonquin has been on a shopping spree in recent years, picking up these assets at relatively attractive prices. As the ESG boom has taken off, Algonquin's asset portfolio has appreciated nicely.

However, I think long-term investors should certainly consider this aspect of Algonquin's business model as a key underlying investment thesis for owning this stock. Yes, there are concerns that the ESG boom could eventually be considered a "crowded trade." However, I think this catalyst has legs.

As efforts to combat global warming intensify, companies like Algonquin transitioning to an ESG-friendly model will gain even more exposure among environmentally-conscious investors.

But that's not all.

Besides this impressive ESG catalyst, Algonquin also stands tall on its core business model.

Algonquin's business model is impressive

Yes, around one-third of the company's revenue comes from renewables.

However, the other two-thirds is derived from the highly stable cash flow-generating utilities business I mentioned previously. Long-term investors like this.

Algonquin's ability to raise its dividends consistently relies on the cash flows from this core business. As investor search for more defensive value names, I think stocks like Algonquin will come into even greater focus. Indeed, the company's recently announced dividend hike of 10% speaks to this. I think more double-digit dividend increases are on the horizon, a fact which income investors should factor in today.

The company's hybrid business model provides a level of growth and defensiveness that's rare in today's market. Algonquin has a unique selling proposition for investors that's unlikely to be unfashionable anytime soon.

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