Is Algonquin Power (TSX:AQN) Stock a Must-Buy at $20?

Description

Algonquin Power (TSX:AQN)(NYSE:AQN) is a well-established Dividend Aristocrat, which is currently trading at a relatively attractive price and valuation, making it perfectly ripe for the picking. But a fair valuation, discounted price, and a stellar dividend history are just part of why you might want to consider adding this stock to your portfolio.

A renewable energy and utility conglomerate

Algonquin has been around for over three decades, and from the very early days, its focus was clean energy (i.e., hydroelectric). It took the company a bit over 12 years to expand its business to regulated water and wastewater utility, and it started that by buying relevant facilities in Arizona. Soon, the company started expanding to other U.S. states.

A few years later, the company started growing its renewable energy business and entered the regulated electric utility business as well. Through several strategic acquisitions and direct development projects, the company has amassed a decent collection of renewable energy and utility businesses that operate and exist under two business groups: regulated services and renewable energy.

The services group has over one million customer connections, $6.8 billion in regulated utility assets, customers, and facilities in both Canada and the U.S., and 40 utilities to its name. The portfolio accounts for the stable side of the company's cash flows and a reliable business section. If the company can expand on that, its revenues might get a significant boost.

The renewable energy group is made up of 53 facilities and a total installed capacity of over two GW. Most of these facilities are located in the U.S. and Canada.

The stock and financials

The current share price of about $20 is the result of about a 9.6% decline from its recent peak. The price-to-earnings ratio of 11.7 and price-to-book ratio of about 1.9 times make it almost fairly valued. 2020 was a rough year for the company, but the company has managed to salvage its revenues to its pre-crash levels, and its financials are back to normal.

The balance sheet of the company is rock solid, and since a significant portion of its revenue comes from its stable utility business, we can be reasonably sure about the consistency of net income. This, along with a 44.2% payout ratio, makes its dividends incredibly safe. And the 3.8% yield is reason enough to consider this amazing stock, especially if you factor in its decent dividend-growth rate (33% in the last four years).

But the most compelling reason this stock is a must-buy is its powerful capital growth prospect. The company has a 10-year CAGR of 20.3%, and its growth has been eerily consistent for the past decade.

Foolish takeaway

Algonquin combines a lot of features you might look for in a stock you are considering keeping long term. It has a dependable revenue source (utility business), is future-focused (green energy), has a stable balance sheet, has consistently growing income, and has a diversified portfolio of assets. If it can sustain its growth rate, Algonquin will most likely prove to be an amazing long-term holding.

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Date
2025/08/15
Date Created
2021/04/24
Author

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