



1 Sneaky ESG Play to Buy Today

Description

In the last couple of years, there has been a paradigm shift in portfolio diversification. Indeed, multiple factors investors didn't previously consider are being factored into investors' models today. Total returns are still of utmost importance, but exogenous factors such as [ESG considerations](#) are being taken into account.

Accordingly, it's unsurprising to see ESG plays drive some pretty impressive returns of late. It turns out investing in a socially responsible way is profitable for investors. Accordingly, considering unique indirect ESG plays such as **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) can be a great way for investors to enhance their [long-term returns](#).

Here's why this stock is one of my favourite ways to play the ESG catalyst right now.

Business model built for ESG investors

Utilities plays are generally the antithesis of what investors would consider ESG plays. Indeed, most electricity is still generated via natural gas power plants and other fossil fuel-related sources. This still makes up a significant percentage of Algonquin's overall business.

However, this utilities player has aggressively invested in its renewable energy portfolio. The company's renewables segment provides roughly one-third of Algonquin's overall revenue. Additionally, the company expects this number to expand over time.

Algonquin has gotten to this point via years of well-timed acquisitions in this space. These investments have turned out to be very profitable, spurring strong earnings and free cash flow growth over time.

In fact, the company expects to provide investors with 8-10% in annual earnings per share and free cash flow growth through 2025. Such a CAGR in combination with a well-diversified portfolio of assets makes this stock a top pick for ESG investors today.

As Algonquin transitions more of its business to ESG-friendly energy sources, I expect to see more

capital inflows into such plays. For now, Algonquin remains under the radar. This is a very good thing for investors interested in picking up shares on the cheap today.

Bottom line

Utilities tend to be rather boring, defensive plays. And Algonquin's regulated utilities business provides just that boring defensiveness investors want.

That said, this utilities play is a sneaky ESG play with tonnes of upside due to its growth prospects. As more capital flows into ESG-friendly utility plays like Algonquin, I expect to see healthy capital appreciation over the long term.

There may be some volatility on the horizon for such plays as the market ebbs and flows. However, Algonquin's defensive growth profile is among the best on the TSX today. Accordingly, I'd highly recommend long-term investors seeking total return to look at this high-quality company today.

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Author

chrismacdonald

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