1 Dividend Stock to Buy the Dip for a 4.4% Yield

Description

Investors buy dividend stocks for a nice income. They want that income to be predictable and ideally growing. **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) is proud to be a Canadian Dividend Aristocrat that has paid a growing dividend for 10 consecutive years.

One strategy to help you get a bigger yield on nice yield dividend stocks like Algonquin is to buy the dip. The utility has dipped as much as 5% today but has recovered to about 3% as of writing, apparently in reaction to the news of a proposed equity offering of about US$900 million that's subject to market conditions and other factors. That is, given the chance, it would raise about US$1.03 billion.

This appears to be the normal course of business for Algonquin, as it's the fourth "green" offering the company or its subsidiaries have done. To elaborate, the net proceeds are expected to be used for financing or refinancing investments in renewable energy generation projects or facilities or other clean energy technologies under the company's Green Financing Framework.

Is Algonquin's dividend sustainable?

Some might recall that Algonquin cut its dividend during the global financial crisis in 2008, fearing that it could cut its dividend again during times of stress.

Investors should be reassured that Algonquin is unlikely to cut its dividend. The utility has grown in scale, diversity, and stability over the years.

Specifically, it has more than tripled its asset base from about $5 billion to $16.8 billion in the past five years. Notably, it maintains an investment-grade S&P credit rating of BBB, which suggests substantial growth with a watchful eye on its financial leverage.

Today, Algonquin consists of two business segments: its regulated utilities (natural gas, electric, and water) and non-regulated renewable energy (wind, solar, hydro, and thermal). Its renewable energy portfolio primarily involves long-term contracts that have inflation escalations. Altogether, they allow itto generate stable earnings and cash flow.

Should you buy the dip opportunity for a 4.4% yield?

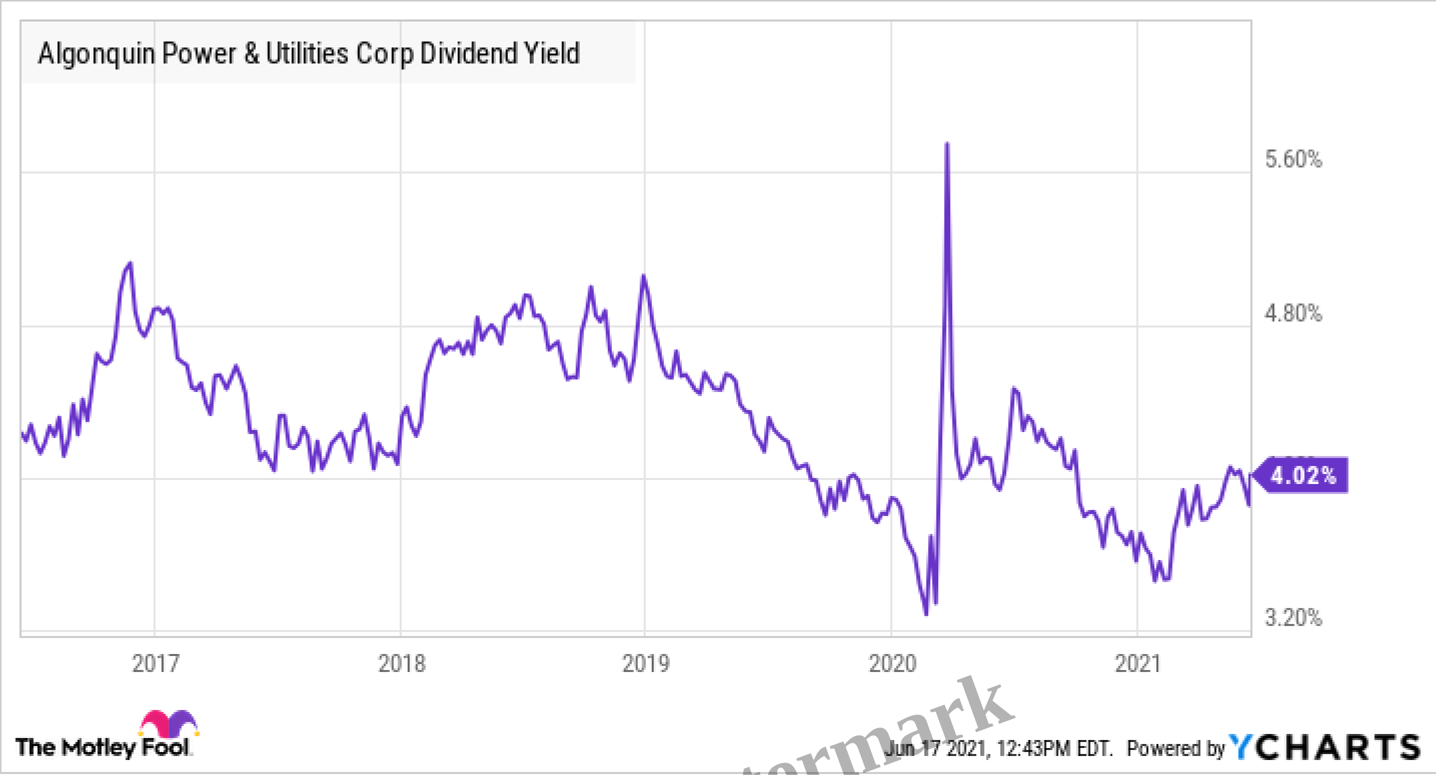
After increasing its quarterly dividend by 10% last month, Algonquin's annualized payout is US$0.6824 per share. The dip lifts its yield to about 4.4%, which is decent for the utility.

The 4.4% yield would be especially attractive to those who are fed up with low interest rates. Importantly, dividend stocks aren't fixed-income investments. Algonquin stockholders should expect to experience volatility.

For example, in the pandemic market crash in early 2020, the stock fell more than 40% from peak to trough, even though the pandemic ended up having essentially no impact on the business. This kind of substantial decline isn't common but be aware that it can happen.

In 2020, AQN's adjusted EBITDA, a cash flow proxy, increased by 4% versus 2019, while its adjusted earnings per share rose 2%. Therefore, perhaps realized only in hindsight by some, Algonquin stock was a super buying opportunity on the market crash. Unfortunately, there's always a sell-side party opposite to the buy-side. That means, some investors sold Algonquin stock for low prices during the crash.

According to AQN's five-year yield history shown below, investors looking for a bigger bargain could aim to buy the stock at a 4.8% yield or higher, which would imply a maximum buy target of US$14.22 per share based on the current payout.



AQN Dividend Yield data by YCharts

Alas, interested buyers must decide whether today's opportunity is good enough for their available cash.

The Foolish takeaway

Algonquin's equity offering gave a surprise buy-the-dip opportunity for investors. They can grab the stock for a boosted yield of about 4.4%. If you think it's good enough for you, consider buying some AQN shares on the dip and start enjoying a nice income.

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