



## Why Algonquin Power & Utilities (TSX:AQN) Is an Excellent Buy Right Now

### Description

The equity markets continue to be volatile amid the ongoing Russia-Ukraine war and rising commodity prices amid sanctions imposed by European countries and the United States on Russia. I expect the volatility to continue in the near term. So, given the uncertain outlook, investors should strengthen their portfolios with fundamentally strong companies that generate solid cash flows.

**Algonquin Power & Utilities** ([TSX:AQN](#)) ([NYSE:AQN](#)), which operates low-risk utility assets and regulated renewable power-generating facilities, would be an excellent buy in this uncertain outlook. It posted a [solid fourth-quarter performance](#) earlier this month. Let's look at its fourth-quarter performance and growth prospects in detail.

### Algonquin Power & Utilities's fourth-quarter performance

During the recently reported fourth quarter, Algonquin Power & Utilities had outperformed analysts' revenue expectations while its adjusted EPS was in line with the expectations. Meanwhile, its revenue grew 21% on a year-over-year basis, while its adjusted EBITDA increased by 18%. The strong performance from both its regulated services group and renewable energy group drove its financials during the quarter.

The operating income from the regulated services group had increased by 18%. The contributions from projects put into service last year and favourable rate revisions at some of its facilities drove its financials. Meanwhile, the operating income from its renewable energy group increased by 27%, with contributions from Sugar Creek and Maverick Creek wind generation facilities, which became operational last year.

The company had also strengthened its balance sheet by issuing around US\$1.1 billion of hybrid debt. It ended 2021 with approximately US\$2 billion of committed capital and available reserves.

### Growth prospects

Algonquin Power & Utilities has an impressive pipeline of projects. The management expects to invest around US\$12.4 billion over the next five years, expanding its regulatory and renewable assets. These investments could grow the company's rate base at an annualized growth rate of 14.6%, thus driving its adjusted EPS by 7-9% annually. Additionally, the company could also benefit from increasing transition towards clean energy.

Meanwhile, in 2022 alone, the company expects to spend around US\$4.3 billion, including the acquisition of New York American Water. Meanwhile, the company is also working on closing the acquisition of Kentucky Power Company and AEP Kentucky Transmission Company, which can deliver long-term adjusted EPS growth. So, given the healthy growth initiatives, the management expects its adjusted EPS to grow by 1.5-8.5% this year. So, I believe Algonquin Power & Utilities's outlook looks healthy.

## Dividend and valuation

Algonquin Power & Utilities is a Canadian Dividend Aristocrat. It has raised its dividend by over 10% annually for the last 11 years. Its stable cash flows from regulated assets have consistently helped the company increase its dividend. With a quarterly dividend of US\$0.1706, its forward yield currently stands at a healthy 4.52%.

Supported by its solid fourth-quarter performance, the company is trading 5.3% higher for this year, comfortably outperforming the broader equity markets. Despite the increase, Algonquin Power & Utilities still trades at an attractive valuation, with its forward price-to-earnings multiple standing at 20.1.

## Bottom line

Given its healthy growth prospects, stable cash flows, attractive valuation, and high dividend yield, [I expect Algonquin Power & Utilities to outperform this year](#). Meanwhile, analysts also look bullish on the stock. Of the 12 analysts following the stock, six have issued a "buy" rating, while four analysts have given a "hold" rating, and two analysts have issued a "sell" rating. Analysts' consensus price target represents an upside potential of 7.7%.

### CATEGORY

1. Dividend Stocks
2. Investing

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