



Should You Buy Algonquin Power Stock for its 5.4% Dividend Yield?

Description

Several dividend investors try to shortlist stocks based on their forward yields. But a company's dividend yield is also a function of its stock price, as dividend yields and stock prices are inversely related. So, if a stock offers a generous dividend yield, it makes sense to look at the company's fundamentals to analyze if it's worth investing in.

One [Canadian TSX stock](#) that provides shareholders with a dividend yield of 5.4% is **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)). While AQN stock is trading 24% below all-time highs, it has also returned 320% to investors in dividend-adjusted gains since September 2012.

Is AQN stock a buy?

Through its [renewable energy](#) and regulated services business segments, collectively called Liberty, Algonquin Power & Utilities aims to provide cost-effective rate-regulated water, natural gas, transmission & distribution, and electricity generation utility services to more than one million North American household connections.

The utilities business accounts for two-thirds of total cash flows, while the rest is derived from the company's renewable energy segment. Its utilities segment serves over three million customers. As the business is rate-regulated, AQN derives a stable stream of cash flows from this vertical.

Algonquin Power is fast gaining traction in renewable energy through its portfolio of long-term contracted wind, solar, and hydroelectric generating facilities. It currently owns and operates more than four gigawatts of installed renewable energy capacity. A majority of its electrical output is tied to long-term sale agreements with an average contract life of 12 years.

Due to its robust cash flow generation, Algonquin has increased dividend payouts at an annual rate of 10% in the last decade. The company has also outlined a US\$12.4 billion capital expenditure plan through 2026, which should drive future cash flows and dividend payouts higher.

In the June quarter, AQN increased its adjusted net earnings by 20% to almost \$110 million.

Comparatively, adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) was up 18% at \$289.3 million.

What next for Algonquin Power & Utilities?

Last October, Liberty Utilities, an indirect subsidiary of Algonquin Power, entered into an agreement with the American Electric Power Company to acquire Kentucky Power Company and AEP Kentucky Transmission Company.

The acquisition is valued at a total purchase price of US\$2.846 billion, including the assumption of US\$1.22 billion in debt. Kentucky Power is a state rate-regulated electricity generation, distribution, and transmission utility that services 228,000 active customer connections and operates under a cost-of-service framework. The acquisition is expected to be completed by the end of 2022.

Further, despite an inflationary environment, Algonquin is expected to improve adjusted earnings at an annual rate of 10.5% in the next five years. So, AQN stock is valued at 17.2 times forward sales which is reasonable given its earnings forecast and juicy dividend yield.

Analysts tracking AQN stock expect it to rise by more than 20% in the next year. After accounting for its dividends, total returns will be closer to 26%.

Algonquin's predictable cash flows, widening profit margins, and expanding renewables business make it a top stock to buy right now.

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Author

araghunath

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