



## Why Algonquin Power & Utilities Stock Fell 15% in September

### Description

Last month was brutal for global equity markets as rising interest rates, high inflation, and continued geopolitical tensions weighed on the markets. The **S&P/TSX Composite Index** fell by 4.6%. Meanwhile, **Algonquin Power & Utilities** ([TSX:AQN](#)) ([NYSE:AQN](#)) lost over 15% of its stock value, underperforming the broader equity markets.

The utility business is capital-intensive. So, rising interest rates could increase their borrowing cost, thus hurting their margins. These concerns led to a selloff in Algonquin Power & Utilities. Amid the steep correction, the company is trading at around a 25% discount compared to its April highs. So, should investors look to accumulate the stock at these levels?

Let's first look at the company's historical performance and growth prospects.

### Algonquin Power & Utilities' historical performance

Algonquin Power & Utilities operates [low-risk](#) utility assets across the United States, Canada, Bermuda, and Chile. It is also involved in renewable power generation, with a gross capacity of 2.4 gigawatts. Meanwhile, 82% of the power produced from its facilities is protected by long-term agreements that have a weighted average remaining life of 12 years. These long-term agreements shield company financials from price and volume fluctuations.

Supported by regulated, low-risk assets and strategic acquisitions, the company has delivered solid performances over the last five years. Topline and adjusted net income have grown at a CAGR (compound annual growth rate) of 15.8% and 22.7% during the period while delivering impressive returns of over 101% at a CAGR of 15%.

Despite the challenging environment, the company has continued its growth in 2022, delivering revenue and adjusted net income growth of 17% and 16%, respectively. Meanwhile, the company had a total obligation of around \$16 billion at the end of the second quarter, with a due date of over five years for a substantial portion of it. Now, let's look at the company's growth prospects.

## AQN's growth prospects

Meanwhile, AQN is planning to strengthen its regulated utility and renewable asset base and has committed around US\$12.4 billion of capital for this initiative from 2022 to 2026. The company's management has allocated 70% of these investments to regulated utility assets and the remaining 30% to [renewable energy](#). These investments also cover strategic acquisitions, including Kentucky Power.

Supported by these investments, AQN's rate base could grow at a CAGR of 14.6% while growing its adjusted EPS (earnings per share) at 7-9% per annum through 2026. So, the company's growth prospects look healthy.

## Dividends

Algonquin Power & Utilities has a solid track record of rewarding its shareholders by raising its [dividend](#) consistently at a CAGR of over 10% since 2010. With a quarterly dividend of US\$0.1808, the company's forward yield stands at a juicy 6.67%.

## Bottom line

After making three consecutive rate hikes of 75 basis points, the Chairman of the U.S. Federal Reserve has warned that the central bank could introduce further hikes. He projects the benchmark interest rate to reach 4.6% in 2023. These steep hikes have raised concerns over capital-intensive companies, such as Algonquin Power & Utilities.

Meanwhile, the company has taken around 84% of its debt on a fixed interest rate, which the steep rate hikes will not impact. So, I believe the overall impact of rate hikes on the company's margins will be minimal. Also, its healthy growth prospects, attractive NTM (next 12 months) [price-to-earnings](#) of 14.2, and high dividend yield make the company an excellent buy for long-term investors.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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2. TSX:AQN (Algonquin Power & Utilities Corp.)

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