Why I'd Buy Algonquin Power & Utilities Stock Before the Year Is Out

Description

With all the instability on the **S&P/TSX Composite Index**, Canadian investors have plenty of opportunities to invest in shares of high-quality Canadian stock for substantial discounts. With many top dividend stocks trading for discounted prices, investors can also capture high-yielding returns due to inflated dividend yields.

One such company to consider is **Algonquin Power & Utilities** (TSX:AQN). Algonquin Power is a $10.02 billion market capitalization Canadian regulated utility and renewable energy conglomerate with assets throughout North America.

Regulated utility assets comprise 70% of its operations. The rest of its income comes from its diversified renewable energy portfolio that includes hydro, wind, and solar power assets.

Regulated utility companies are typically the pillars of stability in unstable market environments. And yet, as of this writing, Algonquin Power stock trades for $14.94 per share, down by almost 26% from its 52-week high. Despite declining share prices, I think it can be an excellent addition to investor portfolios.

Declining due to economic pressure

Algonquin Power relies on U.S. operations for three-quarters of its utility segment revenues. Our neighbors south of the border are technically in a recession, creating pressure on equity securities across the board. While it might be a mild recession thus far, it has weighed heavily on Algonquin stock. As the chart below shows, Algonquin stock is down by 17.73% year to date.

Central banks in Canada and the U.S. have increased key interest rates to cool down the red-hot inflationary environment. The regulators know that interest rate hikes slow down economic activity, but it is the only way to bring rising living costs under control.

As stable as utility businesses are, their business model relies on debt-heavy balance sheets. Higher interest rates put more pressure on these companies, and that is why we see a trend of declining share prices among utility companies like Algonquin Power this year.

Toward the end of the second quarter of fiscal 2022, Algonquin stock had an under US$7.3 billion long-term debt. Its high debt levels in a rising interest rate environment theoretically make it a riskier investment.

Why would I still add it to my portfolio before this year ends?

Algonquin Power & Utilities stock is a Canadian Dividend Aristocrat. It has grown its shareholder dividends for the last 11 years, with a 9.5% 10-year dividend-growth rate. At current levels, its inflated dividend yield is touching the 6.59% mark, which is highly attractive for passive income-seeking investors.

The company is presently in the process of acquiring Kentucky Power — a deal that would increase regulated utilities to 80% of the company's revenue.

Regulated utilities introduce more stability to cash flows. The deal's completion depends on approval from the U.S. Federal Energy Regulatory Commission. If the acquisition pulls through without a hitch, Kentucky Power could fall under Algonquin's umbrella for US$2.65 billion — US$200 million cheaper than it previously was.

Foolish takeaway

Macroeconomic factors are the primary reason for Algonquin Power stock's decline. Inflation and rising interest rates are impacting the stock market in general, and not just Algonquin stock. I would use this opportunity to add this regulated utilities and renewable energy stock to my portfolio and capture its high-yielding dividends and long-term growth potential.

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