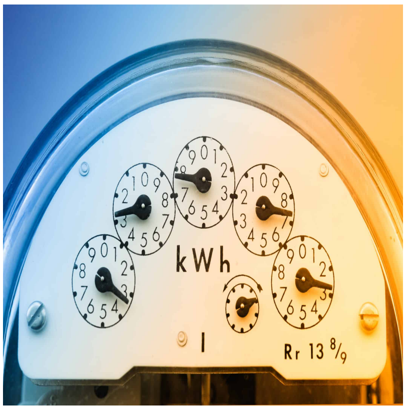

Worried About Algonquin? This TSX Utility Stock Looks Far More Attractive

Description

No one would be surprised if a penny stock lost 30-35% in a short span of time. But it's **Algonquin Power** (TSX:AQN) which has lost 35% in just the last two trading sessions. Such a fall for a defensive stock is quite concerning for investors. Notably, AQN stock has lost $3 billion of its market cap and is currently trading at five-year lows.

Moreover, the selling has been so heavy that AQN witnessed a volume of 21.6 million shares on Monday — almost eight times its three-month average daily trading volume.

Why AQN stock fell to five-year lows

Algonquin Power is one of the biggest dividend-paying utility stocks in Canada. It reported its third-quarter earnings, which were way below consensus estimates. It reported adjusted net earnings of $73 million for the quarter that ended on September 30, 2022, against $97.6 million in the same period last year.

Higher interest expenses mainly weighed on its earnings during the quarter. Algonquin has 22% of its debt that's exposed to variable interest rates. So, as interest rates increased this year, interest expenses surged, ultimately hampering its bottom line. Algonquin clarified during its earnings call that an increase of 100 basis points in interest rates would raise its interest expense by $16 million annually.

The utility also lowered its earnings guidance for 2022, which further dented investor sentiment. It now expects to earn adjusted net earnings of $0.66 to $0.69 per share this year.

Will AQN cut dividends next year?

Note that utilities are highly stable companies because of their earnings visibility. They grow slowly but pay consistent dividends. Algonquin also has an attractive dividend profile and is expected to pay a dividend of $0.72 per share in 2022. However, with earnings taking a significant hit and enduringmacro challenges, investors could be concerned about its dividend stability next year.

The management has guided that investor dividends remain their priority. It has paid 80-90% of its earnings in the form of dividends in the past, higher than the industry average. However, it remains to be seen if dividend payments need to be cut in the wake of an earnings drop.

AQN stock might keep trading weak for the next few quarters. The problems the management has highlighted do not seem to be over soon. So, investors looking for stable dividends can consider switching to peer utility stocks.

Alternative stock idea: Fortis

Interest rates and utility stocks trade in reverse to each other. So, many utility stocks witnessed weakness in the last six months. One of them that looks attractive is **Fortis** (TSX:FTS). FTS has corrected 18% in the last few months but seems to have a limited downside from here.

Fortis reported a net income of $342 million in the third quarter of 2022 — a decent 10% jump year over year. It pays a stable dividend that yields 4.3% at the moment.

Plus, Fortis has seen multiple economic cycles and has kept its dividend-growth streak intact for almost five decades, which speaks for its dividend reliability.

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vinitkularni20