4 Things to Know About Algonquin Stock in December 2022

Description

Algonquin Power & Utilities (TSX:AQN) stock is down big this year. Starting off the year at $18.02, it has fallen to $9.98 — a 45% decline.

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The reasons for Algonquin's poor performance this year are well known. In November, it put out an earnings release that not only missed analyst estimates but showed the company actively losing money. Investors sold off the stock in response to the poor release, sending it to lows not seen in years.

As a result of the selloff, Algonquin stock now has a 9.6% dividend yield, making it one of the highest-yielding opportunities in the Canadian markets. It certainly looks enticing, but yields as high as Algonquin's often come with significant risks.

In this article, I will explore four key facts you need to know about Algonquin Power & Utilities stock before you can make an informed investment in it.

2021 net income was up over a four-year period

One thing you might be surprised to learn about Algonquin is that its most recent full-year net income (i.e., profit) was up over a four-year period. In 2018, the company earned $79 million. In 2021, it earned $185 million. So, despite this year's weakness, AQN's most recent full-year earnings were up 134%, or 23% annualized.

The dividend hasn't been cut (yet)

Another thing you might be surprised to learn about Algonquin is that its dividend hasn't been cut. At the start of the year, AQN raised its payout to $0.1808. Shortly before its notorious earnings release came out, it re-affirmed that payout level. So, despite the net loss that AQN ran in the third quarter(Q3), its dividend isn't being cut. Whether this is a good thing is debatable. You could argue thatpaying a dividend while losing money is worse than cutting it. But we have strong evidence here thatAQN's management believes it can keep paying dividends.

The stock has a 9.6% yield

Algonquin Power's dividend yield was already high before its November selloff. Before the Q3 earnings release came out, it was sitting at about 6.5%. That's far above average. As a result of the decrease in the stock price, Algonquin now yields 9.6%. That's enough to generate $9,600 per year in dividend income with $100,000 invested.

AQN is working on buying a large U.S. utility

A final thing you might be surprised to learn about Algonquin is that it's currently working on buying a large U.S. utility. On September 30, AQN announced that it would be purchasing Kentucky Power, a major U.S. utility that generates electric power. Algonquin expects that the two companies' combined expertise will help deliver efficient service in the state of Kentucky. Little was said in the press release about the earnings impact of buying KP, but given that the company borrowed $1.2 billion to do the deal, we'd expect an increase in interest expense.

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Foolish bottom line

The bottom line on Algonquin Power is that it's a company with a strong history that is going through tough times. Few would deny that AQN has grown its business quickly, but today, rising interest rates are taking a bite out of its profitability. I'll pass on this stock for now, but other investors may find it a good deal.

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