Is Now Actually the Perfect Time to Buy Algonquin Stock?

Description

After the volatile year that was 2022, most investors are now on the lookout for some great buys. Among those great buys to consider is **Algonquin Power & Utilities** (TSX:AQN). Here's why it may be the perfect time to buy Algonquin.

Meet Algonquin

For those that are unaware, Algonquin is a diversified utility that includes generation, transmission, and distribution segments. The utility has operations across Canada, the U.S., and the Caribbean. Algonquin's renewable energy segment comprises over four gigawatts of installed capacity, making it one of the larger players in the segment.

In the most recent quarter, Algonquin made headlines, as it reported a whopping 27% drop in profits. Management also opted to lower earnings guidance by $0.03 per share to $0.66 for the fiscal. That dip means that Algonquin's payout level balloons to well over 100%.

In other words, Algonquin will be paying out more in dividends than what it earns, and that's problematic.

Algonquin's business is still OK. Right?

The bulk of Algonquin's revenue stems from regulated utilities. This means that long-term contracts that often span a decade or more in duration provide the utility with a recurring and stable stream of revenue. Algonquin's renewable business adheres to that same long-term contract model.

That model has worked well for Algonquin, which has provided investors with annual bumps to its dividend for over a decade.

So then, what's the issue? Isn't it the perfect time to buy?

Algonquin has taken an aggressive stance on expanding, which should be considered a good thing. The issue arises when we note that expansion is often financed with debt. And with interest rates soaring, the cost of servicing that debt is rising.

That’s part of the reason why Algonquin opted to lower guidance in the most recent quarter. That, in turn, led to the stock shedding nearly 40% of its value in the past three-month period.

That dip in share price has resulted in Algonquin’s dividend yield soaring to an incredible 11.15%. While utilities are well known for offering higher payouts, Algonquin’s payout as it stands is unsustainable.

This means that a dividend cut could be coming for Algonquin, which is the other reason why the stock has dropped in recent weeks.

Is it the perfect time to buy Algonquin?

No stock is without risk. For some investors, Algonquin may seem like a risky investment, at least at first glance.

Fortunately, the fundamentals around Algonquin are sound. The company has solid long-term growth potential and will continue to generate a stable revenue stream. And even if Algonquin does need to slash its dividend, it will remain one of the more competitive options on the market.

And until Algonquin does slash its dividend, investors can enjoy the juicy yield on offer and even scoop up some more shares at a steep discount.

In my opinion, Algonquin is a great long-term investment that should be a smaller part of a larger, well-diversified portfolio.

If you can handle the risk, now is the perfect time to buy Algonquin. Buy it, hold it, and watch it grow over the long term.

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