



Where Is Algonquin Stock Heading After a Massive Crash in 2022?

Description

2022 was a disastrous year for **Algonquin Power and Utilities** ([TSX:AQN](#)) stock. Over the past year, its stock has lost more than 50% of its value. That is an incredibly drastic result for what was once thought a safe [utility](#) and renewable power stock.

Today, Algonquin stock trades with a substantial 11.15% dividend yield. That might be very attractive for dividend investors, but caution is heavily warranted.

I have rarely, if ever, seen a +9% dividend yield sustained. The market is a weighing machine, and it is betting that its dividend will get slashed or drastically reduced at some point.

What happened to make Algonquin stock crash?

The market has marked down Algonquin stock for a reason. Over the past several years, Algonquin management has promoted a faster-than-average growth strategy. In that period, it issued significant amounts of equity (up 150% over the past five years), and it took a lot of variable rate debt to fund its capital plan.

That plan came to halt when interest rates rapidly rose in 2022. Interest costs started to eat up the company's profitability. In its third quarter, adjusted net earnings declined 27%. At the present, its dividend is not covered by earnings.

The greater concern is the fact that Algonquin was planning to draw even more variable rate debt to fund its acquisition of Kentucky Power (not to mention assume a lot of debt in the purchase). All in all, investors got spooked and started to sell out of the name.

The bad news keeps coming for Algonquin stock

In recent news, the Federal Energy Regulatory Commission (FERC) [announced](#) that it would not approve the Kentucky Power deal. Algonquin could re-apply on certain conditions to the Commission,

but it would take at least six months or more. The alternative would be to end the acquisition process. Unfortunately, Algonquin could be on the hook for a US\$65 million termination fee.

Between a rock and hard place

Frankly, Algonquin stock is between a rock and hard place. Its financial situation is somewhat perilous. It will likely need to reduce its capital plan, lower its dividend, or sell off some assets (or all three) to keep its credit rating remain intact.

Its share price has drastically declined, so issuing equity is not really an option. With interest rates up substantially, issuing more debt will also be expensive.

Limited upside until the outlook is clarified

Let's be clear; the company does have some good assets in its portfolio. However, it will probably need to sell off some [renewable projects](#) or even its large stake in **Atlantica Sustainable Infrastructure** (a European renewable power operator) to raise cash.

There remains a lot of uncertainty that make this stock risky in the near term. If interest rates continue to rise, Algonquin stock could have further downward momentum. Until it clarifies its strategic plan going forward, there is likely limited upside in the stock.

The takeaway

Undoubtably, Algonquin is a [cheap stock](#) at only nine times earnings. However, I would recommend that only the most skilled contrarian/value investors (who have thoroughly investigated the assets and liabilities of the company) buy into the stock until there is more clarity around its outlook.

In the meantime, stocks like **Fortis**, **BCE**, **Canadian Natural Resources**, or **Brookfield Infrastructure Partners** may be more attractive [blue-chip stocks](#) for a nice yield at lower risk.

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