Why Algonquin Power & Utilities Stock Fell 48% in 2022

Description

Algonquin Power & Utilities (TSX:AQN) is a utility and renewable energy company that has delivered consistent returns historically. From 2011 to 2021, the company generated returns at a CAGR (compounded annual growth rate) of 16.3%. However, it lost nearly 48% of its stock value last year. Rising interest rates and weak quarterly performances dragged its stock price down. Let's look at its quarterly performance in detail.

Algonquin Power's performance in 2022

Algonquin Power has continued its top-line growth this year by increasing its revenue by 19.8% to US$2 billion in the first nine months. The acquisition of New York American Water Company in January 2022, favourable rate revisions, a new renewable facility addition, and higher production from existing facilities drove the company's top line. However, unfavourable currency translation offset some of its growth.

Despite the top-line growth, the company reported a net loss of US$137.6 million compared to a net profit of US$89.2 million in the corresponding quarters of the previous year. The decline was due to the changes in the value of its investments, increased interest expenses, and higher depreciation expenses. Meanwhile, removing one-time or special items, Algonquin's adjusted net earnings stood at US$324.5 million, an increase of 2.8% from the previous year.

Also, the company's adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) grew by 15.1% to US$896 million. Its financial position also looks healthy, with its liquidity and capital reserve at $2.2 billion as of September 30. Now, let's look at its growth prospects.

Outlook

Algonquin Power is working on completing the Kentucky Power acquisition, which could expand its rate base and grow customer connections. The company's management expects to close the deal this month. However, the acquisition could increase the company's debt by US$1.2 billion. So, in this high-interest rate environment, the company's interest expenses could rise, thus hurting its margins.

With climate change reaching dangerous levels, the focus on green energy is increasing, which could benefit the green power producer. Meanwhile, the company is developing several solar and wind energy facilities, which can add 640 megawatts of power-producing capacity over the next couple of years. Besides, its solid underlying regulated utility business could continue to generate substantial cash flows.

Dividend and valuation

With substantial revenue coming from regulated utility businesses, Algonquin Power generates stable and predictable cash flows. Supported by its stable cash flows, the company has been raising its dividends uninterruptedly since 2009. Currently, it pays a quarterly dividend of US$0.18/share. Meanwhile, the recent sell-off has increased its dividend yield to 11%.

Also, its valuation looks attractive, with the company currently trading at 9.2 times its projected earnings for the next four quarters.

Bottom line

After raising interest rates by 0.5% last month, the Chairman of the Federal Reserve of the United States has indicated that monetary tightening measures would continue in 2023. So, I am not expecting the interest rates to come down anytime soon. However, investors with an over three-year investment timeframe can go long on the stock, given its exposure to a solid regulated utility business and high-growth renewable business. Also, its high dividend yield and attractive valuation make the stock an attractive buy for long-term investors.

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