Can Buying Algonquin Stock Today Create Long-Term Wealth?

Description

Most experienced stock market investors regard utility businesses as exceptional defensive assets. During market downturns, utility companies' essential services position them well enough to generate healthy cash flows and ride the wave. Due to this, these stocks offer more stability during volatile market environments — at least most of the time.

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Inflationary pressures forced the Bank of Canada (BoC) to increase key interest rates. By introducing a series of aggressive interest rate hikes, the central bank aims to control multi-year record inflation levels. Unfortunately, higher borrowing costs put a lot of pressure on utility companies that rely on taking on heavy debt loads as part of their business models.

Valuations declined for all utility stocks on the TSX due to rising interest rates. Since utility businesses also offer stable and reliable dividend payouts, savvier investors have an opportunity to capture inflated dividend yields due to the decline.

Between juicy and reliable dividend income and long-term capital growth, many might assume utility stocks like **Algonquin Power & Utilities** (TSX:AQN) to be excellent tools for building long-term wealth. However, Algonquin stock seems to be in deeper waters than its peers.

Today, I will take a good look at the stock to help you determine whether it can be a good asset to buy and hold right now.

Algonquin Power & Utilities stock

Algonquin Power is a $6.04 billion market capitalization renewable energy and regulated utilities business that boasts assets across North America.

The diversified utility business is involved in power generation, transmission, and distribution, serving customers across Canada, the U.S., and the Caribbean. Boasting over four-gigawatt capacity for its renewable energy business, Algonquin is also one of the biggest players in the clean energy industry.

Clean energy is the energy industry's future, and Algonquin stock appears to be future-proofing itself by making strides in that segment. Algonquin should boast a predictable growth profile by operating in a largely rate-regulated market.

Between the essential nature of its service and its strong presence in the renewable energy industry, it should be well positioned to deliver stellar long-term growth. However, conservative investors worried about its short-term performance might want to consider steering clear of the stock right now.

Algonquin Power's troubles right now

Its recent-most quarter saw Algonquin Power report an enormous 27% drop in profits. Its management lowered its earnings guidance by $0.03 and announced a drastic 40% cut in shareholder dividends to align with a more favorable payout ratio. Naturally, the company also called off its dividend reinvestment plan. By saving money through reduced payouts, the company can enjoy more financial flexibility.

Steady operations and earnings growth that offer stability and reliability are a hallmark of Canadian utilities. However, Algonquin differs from its peers due to faster growth fueled by its renewable energy segment.

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However, being a capital-intensive business focused on growth has caught up with Algonquin Power stock amid rising interest rates. Besides the dividend cut, it has also taken up asset sales of $1 billion to free up liquidity, repay debts, and fund its growth.

Foolish takeaway

Where Algonquin Power stock's share prices go in the coming weeks is anybody's guess right now. Given its recent performance, it will most likely trade weak in the short term. However, the downside to the stock still appears limited to short-term troubles.

Provided there are no more surprises like the interest rate hikes in the future, Algonquin Power can be a viable long-term investment for wealth growth. If you are a conservative investor, it might be better to stand on the sidelines for a little while to see how the coming weeks shape up for the utility stock.

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