



Algonquin Power & Utilities Corp. (AQN)

Updated July 26th, 2019 by Kay Ng

Key Metrics

Current Price:	\$13	5 Year CAGR Estimate:	9.3%	Volatility Percentile:	7.4%
Fair Value Price:	\$11	5 Year Growth Estimate:	7.5%	Momentum Percentile:	91.6%
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Growth Percentile:	74.7%
Dividend Yield:	4.1%	5 Year Price Target	\$16	Valuation Percentile:	36.5%
Dividend Risk Score:	F	Retirement Suitability Score:	D	Total Return Percentile:	60.1%

Overview & Current Events

Algonquin Power & Utilities Corp. trades on both the Toronto Stock Exchange and New York Stock Exchange under the ticker, AQN. The renewable power and utility company was founded in 1988. All the figures in this report are in U.S. dollars unless otherwise noted.

Algonquin's market cap is \$6.1 billion. The company has increased its dividend every year since 2011. The three parts of its business are regulated utilities (natural gas, electric, and water), non-regulated renewables (wind, solar, hydro, and thermal), and global infrastructure. Algonquin serves about 770,000 connections across 40 regulated utilities in 13 states and 1 Canadian province. It also has 36 renewable and clean energy facilities that have long-term contracts.

Algonquin reported its first-quarter results on May 9, 2019. Year over year, revenues fell 3.6% to \$477 million, adjusted net earnings fell 33% to \$93.8 million, adjusted EBITDA fell 17% to \$231.5 million, and adjusted earnings-per-share declined by 41% to \$0.19. Adjusting for the one-time income boost that occurred in the first quarter of 2018 due to the U.S. Tax Reform, adjusted EBITDA would have increased by 3% and adjusted earnings-per-share would have declined by 10%.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.38	\$0.21	\$0.23	\$0.14	\$0.26	\$0.37	\$0.46	\$0.42	\$0.57	\$0.66	\$0.62	\$0.89
DPS	\$0.24	\$0.24	\$0.27	\$0.29	\$0.33	\$0.37	\$0.49	\$0.55	\$0.60	\$0.51	\$0.55	\$0.79
Shares	93.1	95.4	136.1	188.8	206.9	238.1	255.9	274.1	431.8	488.9	537.8	866.1

Investors should note that Algonquin previously paid Canadian dollar-denominated dividends and started paying a U.S. dollar-denominated dividend in 2014. It also began reporting in U.S. dollars in 2018. So, in the table above, the earnings-per-share from 2009 to 2017 are in Canadian dollars. To match the dividends with the earnings, the dividend-per-share is also displayed in Canadian dollars from 2009 to 2017. From 2018 and onwards, the data is in U.S. dollars.

Historically, Algonquin's earnings-per-share has been volatile. However, they have become more stabilized in the past few years, as the company has increased its scale with a more diversified asset base that is largely regulated utilities with predictable returns or renewable facilities with long-term contracts that generate stable cash flow. Specifically, its 2015 to 2017 earnings growth rate was 11.3%.

It's a common practice for Algonquin to use equity as a source of capital to make acquisitions – its share count is five times it was from about 10 years ago. Going forward, it's likely it'll issue new shares when it sees a fitting acquisition. Under normal circumstances, if the company doesn't make a big acquisition, it'll be increasing its share count by about 10% per year. This is the rate we used for our share count estimation. We expect earnings to be moderately lower this year due to the U.S. Tax Reform that boosted earnings in 2018. Thereafter, we forecast a slower growth rate of 7.5% for the earnings through 2024.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	8.4	21.7	24.9	47.4	27.3	22.9	22.4	27.5	22.3	15.7	20.2	18
Avg. Yld.	7.5%	5.3%	4.7%	4.4%	4.6%	4.4%	4.8%	4.8%	4.7%	4.9%	4.1%	4.9%

Algonquin traded very cheaply like many other stocks coming out of the great recession in 2009. Taking out the outliers in 2009 and 2012 through the period in the last decade, the average price-to-earnings ratio was 23.1 and the average yield was 4.8%.

Algonquin is a very different and a much larger company versus a decade ago. We think a reasonable price-to-earnings of 18 makes sense for an anticipated slower (but still quite good) growth rate of 7.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	63%	114%	117%	207%	127%	100%	107%	131%	105%	77%	89%	89%

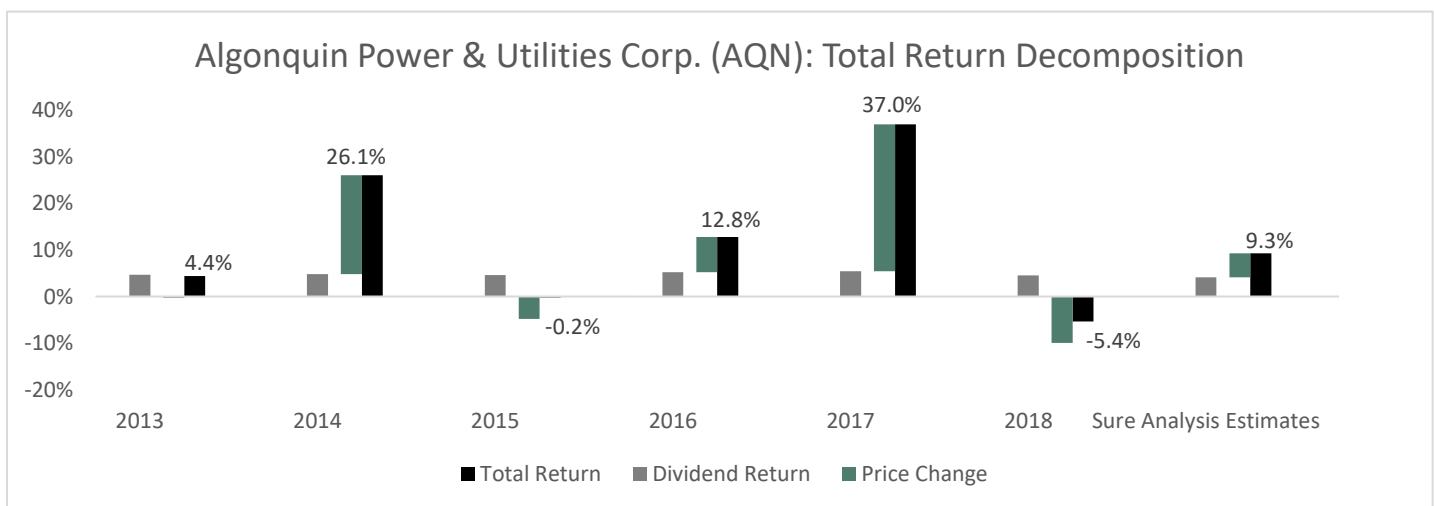
Algonquin cut its dividend during the last recession as earnings fell drastically. Most of the decade displayed payout ratios that were extended. That said, its payout ratio substantially improved to 77% in 2018, after aligning the company's U.S. dollar reporting to its U.S. dollar-denominated dividend. Combining an improved payout ratio with the company's larger scale and the fact that most of its operations are either regulated or have long-term contracts should give better protection for the dividend in a future recession.

At the end of the first quarter, Algonquin's debt-to-equity ratio was 184%, while its debt-to-asset ratio was 58%. Its trailing 12-month interest coverage ratio is 2.3. So, the company's balance sheet appears to be overleveraged.

Final Thoughts & Recommendation

Algonquin is a higher-risk utility that offers a decent yield and above-average growth in the space. The stock is a tad overvalued right now. Over the next five years, we estimate total returns of 9.3% in the stock, coming from a current yield of 4.1%, a drag of -2.3% from price-to-earnings ratio contraction, and earnings growth of 7.5% per year. We rate the security as a hold at current prices.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	179	180	741	1647	265	351	634	815	1522	811
Gross Profit	81	85	469	1163	195	230	379	596	1129	449
Gross Margin	45.1%	47.1%	63.3%	70.6%	73.7%	65.5%	59.7%	73.1%	74.2%	55.3%
SG&A Exp.	11	15	29	57	17	20	22	34	59	30
D&A Exp.	45	49	109	281	46	52	93	146	257	99
Operating Profit	27	21	131	373	53	42	97	174	368	119
Operating Margin	15.1%	11.9%	17.7%	22.7%	19.8%	12.0%	15.3%	21.4%	24.2%	14.7%
Net Profit	30	18	85	185	23	15	19	97	149	65
Net Margin	16.7%	10.0%	11.4%	11.2%	8.6%	4.2%	3.0%	11.9%	9.8%	8.0%
Free Cash Flow	35	21	42	64	9	-15	-56	-88	-239	-206
Income Tax	-17	-21	32	53	-22	-14	9	28	73	14

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	968	1017	3597	9389	1256	2793	3265	6138	8396	3534
Cash & Equivalents	3	5	90	47	71	53	13	82	43	8
Accounts Receivable	20	26	135	246	43	89	151	141	245	162
Inventories		0	21	96	3	24	31	28	89	27
Goodwill & Int. Ass.	82	75	133	1009	64	119	131	276	1005	126
Total Liabilities	592	677	1946	5691	715	1384	1888	4288	5075	1952
Accounts Payable	32	2	36	90	8	34	14	67	120	59
Long-Term Debt	400	442	1071	3337	446	776	1179	3178	3080	1095
Shareholder's Equity	376	340	1240	2993	504	805	788	1272	2533	1125
D/E Ratio	1.06	1.30	0.77	1.05	0.88	0.84	1.31	2.22	1.13	0.84

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.4%	1.8%	2.4%	2.1%	2.0%	0.7%	0.6%	2.0%	2.1%	1.9%
Return on Equity	9.1%	5.0%	7.2%	6.7%	5.4%	2.2%	2.4%	7.8%	7.9%	6.8%
ROIC	5.0%	2.3%	3.1%	2.8%	2.6%	0.9%	0.8%	2.5%	2.6%	2.5%
Shares Out.	93.1	95.4	136.1	188.8	206.9	238.1	255.9	274.1	431.8	488.9
Revenue/Share	2.20	1.91	2.89	3.53	2.27	2.21	3.08	2.98	3.94	3.75
FCF/Share	0.44	0.22	0.16	0.14	0.07	-0.09	-0.27	-0.32	-0.62	-0.95

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

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