



Algonquin Power & Utilities Corp. (AQN)

Updated November 15th, 2019 by Kay Ng

Key Metrics

Current Price:	\$14	5 Year CAGR Estimate:	7.2%	Volatility Percentile:	3.1%
Fair Value Price:	\$11	5 Year Growth Estimate:	7.5%	Momentum Percentile:	88.3%
% Fair Value:	124%	5 Year Valuation Multiple Estimate:	-4.2%	Growth Percentile:	76.9%
Dividend Yield:	4.1%	5 Year Price Target	\$16	Valuation Percentile:	28.9%
Dividend Risk Score:	F	Retirement Suitability Score:	F	Total Return Percentile:	48.3%

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 \$7.1 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 close to 800,000 connections across 42 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 third-quarter results on November 15, 2019. Year over year, revenue was flat, cash provided by operating activities increased 43%, adjusted earnings increased 39% (40% on a per-share basis), adjusted EBITDA increased 13%, and adjusted funds from operations (FFO) fell 6%.

Year to date, revenue fell 3% to \$1,186 million, cash provided by operating activities increased 23% to \$444 million, adjusted earnings fell 10% to \$218 million (fell 17% on a per-share basis to \$0.43), adjusted EBITDA of \$608 million was flat, and adjusted FFO of \$422 million was flat.

In October, Algonquin successfully raised gross proceeds of ~\$354 million at \$13.50 per share. The proceeds will largely go to funding growth projects and acquisitions, such as New Brunswick Gas for CAD\$339 million and St. Lawrence Gas for \$61.8 million, which were closed on October 1 and November 1, respectively. Both are regulated utilities. The former serves 12,000 customers in New Brunswick. The latter serves 17,000 customers in the state of New York. Algonquin is also jointly developing a 490 MW wind project that's expected to put on stream in Q4 2020.

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	\$0.81
Shares	93.1	95.4	136.1	188.8	206.9	238.1	255.9	274.1	431.8	488.9	524	844

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 more than five times it was from about 10 years ago. Going forward, it's likely to 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

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count by about 10% per year. This is the rate we used for our share count estimation. The company's capital program through 2023 consists of \$7.5 billion of investments across its businesses, including \$5.3 billion in regulated utilities. 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.

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	22.3	18.0
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%. In the last year, funds have flown into defensive utility names, like Algonquin, bidding up the share price, which look very fully valued.

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%

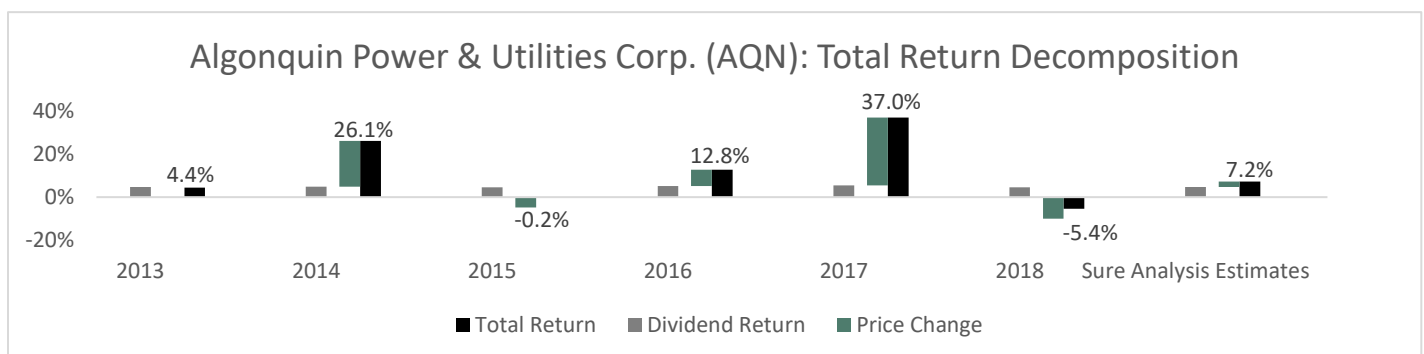
Algonquin cut its dividend during the last recession as earnings fell drastically. Most of the decade displayed payout ratios that were extended. That said, its payout ratio substantially improved to 77% in 2018, after aligning the company's U.S. dollar reporting to its U.S. dollar-denominated dividend. 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 third quarter, Algonquin's net-debt-to-EBITDA ratio was ~7.7x, debt-to-equity ratio was ~2x, and debt-to-asset ratio was 63%. 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 expensive right now. Over the next five years, we estimate total returns of 7.2% in the stock, coming from a current yield of 4.1%, a drag of -4.2% 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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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.

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