



Algonquin Power & Utilities Corp. (AQN)

Updated March 16th, 2019 by Kay Ng

Key Metrics

| | | | | | |
|-----------------------------|------|--|-------|----------------------------------|----------|
| Current Price: | \$12 | 5 Year CAGR Estimate: | 11.8% | Market Cap: | \$6.1B |
| Fair Value Price: | \$12 | 5 Year Growth Estimate: | 7.5% | Ex-Dividend Date: | 03/30/20 |
| % Fair Value: | 99% | 5 Year Valuation Multiple Estimate: | 0.1% | Dividend Payment Date: | 04/15/20 |
| Dividend Yield: | 4.9% | 5 Year Price Target | \$17 | Years Of Dividend Growth: | 2 |
| Dividend Risk Score: | F | Retirement Suitability Score: | F | Last Dividend Increase: | 10.0% |

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.

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 more than 800,000 connections across 40 regulated utilities in 13 states and 1 Canadian province. It also has 53 renewable and clean energy facilities that are largely (about 93%) under long-term contracts with inflation escalations.

Algonquin reported its Q4 and full-year 2019 results on 02/27/20. Q4 2019's revenue rose 4% against Q4 2018. Adjusted net earnings per share climbed 43%, adjusted EBITDA climbed 16%, and adjusted funds from operations (FFO) rose 9%. During the quarter, the utility completed the acquisitions of 2 regulated gas utilities that added an aggregate of about 29,000 customers. During the quarter, it also agreed to acquire from American Water Works (AWK), in the State of New York, the regulated water and wastewater utility operations that serves more than 125,000 customer connections. This transaction is expected to close in 2021 after regulators allows it to pass.

In 2019, revenue declined 1% to \$1,625 million and adjusted earnings increased 3% to \$321 million. However, adjusted earnings-per-share (EPS) declined 5% to \$0.63. Adjusted EBITDA climbed 4% to more than \$838 million, and adjusted FFO rose 2% to \$566 million.

As a part of the executive succession plans, CEO Ian Robertson and CFO David Bronicheski will be orderly selling Algonquin shares roughly from April through June. Vice Chair Christopher Jarratt and Chief Development Officer Jeffery Norman – both of whom will continue as executives at Algonquin, will also be selling shares in a similar orderly fashion. In aggregate, they're selling 1.43 million shares. Additionally, executives also plan to sell 584,000 shares that arose from their existing vested options. Altogether, that's less than 0.4% of outstanding shares.

Growth on a Per-Share Basis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$0.21 | \$0.23 | \$0.14 | \$0.26 | \$0.37 | \$0.46 | \$0.42 | \$0.57 | \$0.66 | \$0.63 | \$0.65 | \$0.93 |
| DPS | \$0.24 | \$0.27 | \$0.29 | \$0.33 | \$0.37 | \$0.49 | \$0.55 | \$0.60 | \$0.51 | \$0.55 | \$0.57 | \$0.82 |
| Shares¹ | 95.4 | 136.1 | 188.8 | 206.9 | 238.1 | 255.9 | 274.1 | 431.8 | 488.9 | 525.9 | 552 | 705 |

Investors should note that Algonquin previous 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 2010 to 2017 are in Canadian dollars. To match the dividends with the earnings, the dividend-per-share is also displayed in Canadian dollars from 2010 to 2017. From 2018 and onwards, the data is in U.S. dollars. Historically, Algonquin's EPS 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

1. Shares in millions.

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renewable facilities with long-term contracts that generate stable cash flow. Specifically, its 2014 to 2019 EPS growth rate was 14.5% based on USD. It's common 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. The company's capital program through 2025 consists of \$9.2 billion of investments across its businesses, including more than \$6.4 billion in regulated opportunities. We forecast a slower EPS growth rate of 7.5% through 2025.

Valuation Analysis

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Now | 2025 |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 21.7 | 24.9 | 47.4 | 27.3 | 22.9 | 22.4 | 27.5 | 22.3 | 15.7 | 19.0 | 17.9 | 18.0 |
| Avg. Yld. | 5.3% | 4.7% | 4.4% | 4.6% | 4.4% | 4.8% | 4.8% | 4.7% | 4.9% | 4.6% | 4.9% | 4.9% |

Taking out the outlier in 2012, from 2010 to 2019, the average price-to-earnings ratio was 22.6 and the average yield was 4.7%. 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

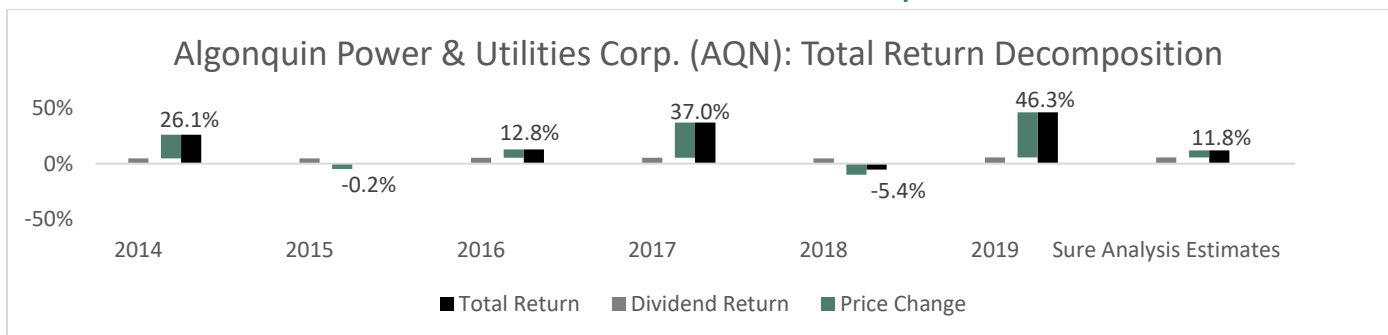
| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2025 |
|---------------|------|------|------|------|------|------|------|------|------|------|------------|------------|
| Payout | 114% | 117% | 207% | 127% | 100% | 107% | 131% | 105% | 77% | 87% | 88% | 88% |

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 is below 90%, after aligning the company's U.S. dollar reporting to its U.S. dollar-denominated dividend. 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. However, the payout ratio is still relatively high for a utility. At the end of 2019, Algonquin's net-debt-to-EBITDA ratio was ~5.4x, debt-to-equity ratio was ~1.7x, and debt-to-asset ratio was 60%. 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 fairly valued. Over the next five years, we estimate total returns of 11.8%, coming from a current yield of 4.9%, a boost of 0.1% from P/E expansion, and earnings growth of 7.5% per year. We rate the security as a buy for higher-risk investors, but note that the stock can trade lower from the executive share sales through June and the market crash we're experiencing now.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 180 | 265 | 351 | 634 | 811 | 741 | 815 | 1522 | 1648 | 1625 |
| Gross Profit | 85 | 195 | 230 | 379 | 449 | 469 | 596 | 1129 | 1164 | 1182 |
| Gross Margin | 47.1% | 73.7% | 65.5% | 59.7% | 55.3% | 63.3% | 73.1% | 74.2% | 70.6% | 72.7% |
| SG&A Exp. | 15 | 17 | 20 | 22 | 30 | 29 | 34 | 59 | 53 | 57 |
| D&A Exp. | 49 | 46 | 52 | 93 | 99 | 109 | 146 | 257 | 261 | 284 |
| Operating Profit | 21 | 53 | 42 | 97 | 119 | 131 | 174 | 368 | 378 | 369 |
| Operating Margin | 11.9% | 19.8% | 12.0% | 15.3% | 14.7% | 17.7% | 21.4% | 24.2% | 23.0% | 22.7% |
| Net Profit | 18 | 23 | 15 | 19 | 65 | 85 | 97 | 149 | 185 | 531 |
| Net Margin | 10.0% | 8.6% | 4.2% | 3.0% | 8.0% | 11.4% | 11.9% | 9.8% | 11.2% | 32.7% |
| Free Cash Flow | 21 | 9 | -15 | -56 | -206 | 42 | -88 | -239 | 64 | 30 |
| Income Tax | -21 | -22 | -14 | 9 | 14 | 32 | 28 | 73 | 53 | 70 |

Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------|------|------|------|------|------|------|------|------|------|-------|
| Total Assets | 1017 | 1256 | 2793 | 3265 | 3534 | 3597 | 6138 | 8396 | 9399 | 10911 |
| Cash & Equivalents | 5 | 71 | 53 | 13 | 8 | 90 | 82 | 43 | 47 | 62 |
| Accounts Receivable | 26 | 43 | 89 | 151 | 162 | 135 | 141 | 245 | 246 | 259 |
| Inventories | 0 | 3 | 24 | 31 | 27 | 21 | 28 | 89 | 96 | 91 |
| Goodwill & Int. Ass. | 75 | 64 | 119 | 131 | 126 | 133 | 276 | 1005 | 1009 | 1079 |
| Total Liabilities | 677 | 715 | 1384 | 1888 | 1952 | 1946 | 4288 | 5075 | 5701 | 6505 |
| Accounts Payable | 2 | 8 | 34 | 14 | 59 | 36 | 67 | 120 | 90 | 150 |
| Long-Term Debt | 442 | 446 | 776 | 1179 | 1095 | 1071 | 3178 | 3080 | 3337 | 3932 |
| Shareholder's Equity | 340 | 504 | 805 | 788 | 1125 | 1240 | 1272 | 2533 | 2993 | 3691 |
| D/E Ratio | 1.30 | 0.88 | 0.84 | 1.31 | 0.84 | 0.77 | 2.22 | 1.13 | 1.05 | 1.01 |

Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Return on Assets | 1.8% | 2.0% | 0.7% | 0.6% | 1.9% | 2.4% | 2.0% | 2.1% | 2.1% | 5.2% |
| Return on Equity | 5.0% | 5.4% | 2.2% | 2.4% | 6.8% | 7.2% | 7.8% | 7.9% | 6.7% | 15.9% |
| ROIC | 2.3% | 2.6% | 0.9% | 0.8% | 2.5% | 3.1% | 2.5% | 2.6% | 2.8% | 6.9% |
| Shares Out. | 94.34 | 116.96 | 158.91 | 205.83 | 216.34 | 256.52 | 274.08 | 385.99 | 466.05 | 504.74 |
| Revenue/Share | 1.91 | 2.27 | 2.21 | 3.08 | 3.75 | 2.89 | 2.98 | 3.94 | 3.54 | 3.22 |
| FCF/Share | 0.22 | 0.07 | -0.09 | -0.27 | -0.95 | 0.16 | -0.32 | -0.62 | 0.14 | 0.06 |

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

Disclaimer

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