



Algonquin Power & Utilities Corp. (AQN)

Updated March 15th, 2021 by Kay Ng

Key Metrics

Current Price:	\$16	5 Year CAGR Estimate:	6.6%	Market Cap:	\$9.5B
Fair Value Price:	\$13	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	03/30/21
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	04/15/21
Dividend Yield:	4.1%	5 Year Price Target	\$18	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	10%

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 1 million connections primarily in the U.S. and Canada. It also has renewable and clean energy facilities that are largely (about 93%) under long-term contracts with inflation escalations.

Algonquin reported its Q4 and full-year 2020 results on 03/04/21. For the quarter, revenue rose 12%, adjusted net earnings rose 23%, adjusted earnings-per-share (“EPS”) climbed 5%, and adjusted EBITDA, a cash flow proxy, rose 10%, against Q4 2019.

For 2020, revenue rose 3% to \$1,677 million, adjusted net earnings rose 14% to \$366 million, adjusted EPS climbed 2% to \$0.64, and adjusted EBITDA rose 4% to \$870 million year over year (“YOY”). Results demonstrate a resilient business through the pandemic.

In Q4 2020, Algonquin acquired two regulated utilities: 1) ESSAL, a Chilean water utility that added ~239,000 connections, and 2) Ascendant, whose major subsidiary is BELCO, the only electric utility in Bermuda and added ~36,000 connections. In 2020, Algonquin also made strides in its renewable energy portfolio, including acquiring a 51% economic interest in 621 MW Texas Coastal Wind portfolio. The management gave an initial 2021 EPS forecast of \$0.71-0.76, which excludes extreme weather impacts in Texas/Midwest. We use the midpoint as our estimate.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.23	\$0.14	\$0.26	\$0.37	\$0.46	\$0.42	\$0.57	\$0.66	\$0.63	\$0.64	\$0.74	\$1.01
DPS	\$0.27	\$0.29	\$0.33	\$0.37	\$0.49	\$0.55	\$0.60	\$0.51	\$0.55	\$0.61	\$0.65	\$0.87
Shares¹	136	189	207	238	256	274	432	489	526	599	629	802

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 EPS 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 renewable facilities with long-term contracts that generate stable cash flow. Specifically, its 2015 to 2020 EPS growth rate was 14.2% 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 four times what it was from about 10 years ago. Going forward, it’s likely to issue new shares for growth, which is fine as long as the stock’s long-term upward trend remains intact. The company’s 2021-2025 capital program consists of

1. Shares in millions.

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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\$9.4 billion of investments across its businesses, including \$6.3 billion in regulated opportunities and \$3.1 billion of investments for its renewable energy segment. We forecast an EPS growth rate of 6.5% through 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	24.9	47.4	27.3	22.9	22.4	27.5	22.3	15.7	19.0	22.5	21.8	18.0
Avg. Yld.	4.7%	4.4%	4.6%	4.4%	4.8%	4.8%	4.7%	4.9%	4.6%	4.2%	4.1%	4.8%

Taking out the outlier in 2012, from 2011 to 2020, the average price-to-earnings ratio was 22.7 and the average yield was 4.2%. Algonquin is a very different and much larger company versus a decade ago. We think a reasonable price-to-earnings of 18 makes sense for its long-term growth rate of 6.5%. The stock appears to be overvalued here. We don't think Algonquin's yield would stray far away from the 4-5% range.

Safety, Quality, Competitive Advantage, & Recession Resiliency

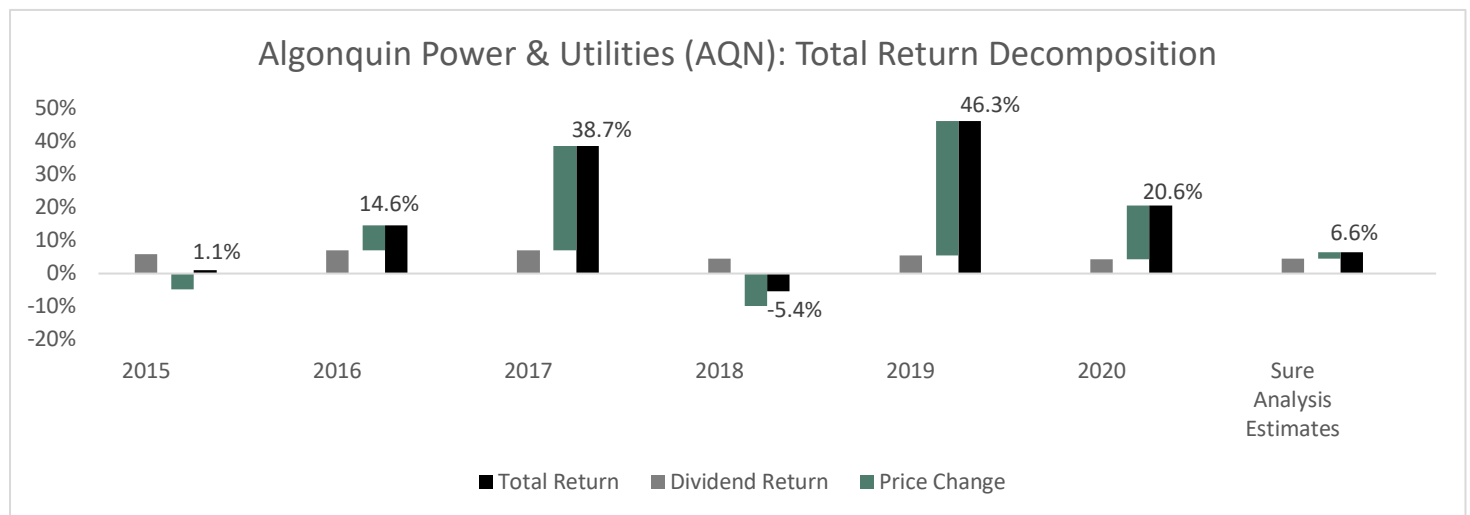
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	117%	207%	127%	100%	107%	131%	105%	77%	87%	95%	88%	86%

Algonquin cut its dividend during the previous recession as earnings fell drastically. Most of the decade displayed payout ratios that were extended. That said, its earnings have been much more stable so far through the pandemic thanks to most of its operations being either regulated or having long-term contracts. After aligning the company's U.S. dollar reporting to its U.S. dollar-denominated dividend, its payout ratio has been more telling since 2018. Going forward, it'd be more prudent for the company to further lower its payout ratio by growing its dividend at a slower pace than its earnings growth. Therefore, we estimate a 6% dividend growth rate versus an estimated EPS growth rate of 6.5%. Algonquin is awarded an investment-grade S&P credit rating of BBB.

Final Thoughts & Recommendation

Algonquin is a higher-risk utility due to its higher payout ratio but offers above-average growth in the space. The stock is overvalued. Over the next five years, we estimate total returns of 6.6%, coming from a forward yield of 4.1%, a decline of -3.8% from P/E contraction, and earnings growth of 6.5% per year. We rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	265	351	634	811	741	815	1522	1648	1626	1677
Gross Profit	195	230	379	449	469	596	1129	1164	1183	1276
Gross Margin	73.7%	65.5%	59.7%	55.3%	63.3%	73.1%	74.2%	70.6%	72.7%	76.1%
SG&A Exp.	17	20	22	30	29	34	59	53	74	86
D&A Exp.	46	52	93	99	109	146	257	261	284	314
Operating Profit	53	42	97	119	131	174	368	378	353	344
Operating Margin	19.8%	12.0%	15.3%	14.7%	17.7%	21.4%	24.2%	23.0%	21.7%	20.5%
Net Profit	23	15	19	65	85	97	149	185	531	782
Net Margin	8.6%	4.2%	3.0%	8.0%	11.4%	11.9%	9.8%	11.2%	32.6%	46.7%
Free Cash Flow	9	-15	-56	-206	42	-88	-239	64	30	-281
Income Tax	-22	-14	9	14	32	28	73	53	70	65

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1256	2793	3265	3534	3597	6138	8396	9399	10921	13224
Cash & Equivalents	71	53	13	8	90	82	43	47	62	102
Accounts Receivable	43	89	151	162	135	141	245	246	259	326
Inventories	3	24	31	27	21	28	89	96	91	135
Goodwill & Int. Ass.	64	119	131	126	133	276	1005	1009	1079	1323
Total Liabilities	715	1384	1888	1952	1946	4288	5075	5701	6514	7562
Accounts Payable	8	34	14	59	36	67	120	90	150	192
Long-Term Debt	446	776	1179	1095	1071	3178	3080	3337	3932	4538
Shareholder's Equity	504	805	788	1125	1240	1272	2533	2993	3691	5019
D/E Ratio	0.88	0.84	1.31	0.84	0.77	2.22	1.13	1.05	1.01	0.87

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.0%	0.7%	0.6%	1.9%	2.4%	2.0%	2.1%	2.1%	5.2%	6.5%
Return on Equity	5.4%	2.2%	2.4%	6.8%	7.2%	7.8%	7.9%	6.7%	15.9%	18.0%
ROIC	2.6%	0.9%	0.8%	2.5%	3.1%	2.5%	2.6%	2.8%	6.9%	8.4%
Shares Out.	136	189	207	238	256	274	432	489	526	599
Revenue/Share	2.27	2.21	3.08	3.75	2.89	2.98	3.94	3.54	3.22	2.97
FCF/Share	0.07	-0.09	-0.27	-0.95	0.16	-0.32	-0.62	0.14	0.06	-0.50

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

Disclaimer

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