



Algonquin Power & Utilities Corp. (AQN)

Updated March 18th, 2023 by Kay Ng

Key Metrics

Current Price:	\$8	5 Year CAGR Estimate:	9.6%	Market Cap:	\$5.5B
Fair Value Price:	\$8	5 Year Growth Estimate:	4.5%	Ex-Dividend Date:	03/30/23
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	04/14/23
Dividend Yield:	5.5%	5 Year Price Target	\$10	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

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 utility has two business segments: regulated utilities (natural gas, electric, and water) and non-regulated renewable energy (wind, solar, hydro, and thermal). Combined, its entire portfolio has 4.3 GW of generating capacity that it aims to achieve 75% renewable energy generation by 2023. 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 82%) under long-term contracts of ~12 years with inflation escalations.

Algonquin reported its Q4 and full-year 2022 results on 3/17/23. For the quarter, revenue rose 26% to \$748.0 million, adjusted net earnings rose 10% to \$151 million, and adjusted earnings-per-share ("EPS") rose 5% to \$0.22. And its adjusted EBITDA, a cash flow proxy, increased by 20% to \$358.3 million, against Q4 2021.

For the full-year 2022, revenue rose 22% to \$2,765.2 million, adjusted net earnings climbed 6% to \$474.9 million, but adjusted EPS fell 3% to \$0.69. However, its adjusted EBITDA rose 17% to \$1,256.8 million year over year.

Notably, the utility cut its quarterly dividend by 40% in March 2023. In December 2022, the regulator, FERC, denied Algonquin from acquiring Kentucky Power. Algonquin decided to continue to pursue the ~\$2.6 billion Kentucky acquisition by submitting a new application to FERC in February 2023. Algonquin initiated its 2023 EPS guidance at \$0.55-\$0.61. Therefore, we initiate our 2023 EPS estimate at the midpoint of \$0.58.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.26	\$0.37	\$0.46	\$0.42	\$0.57	\$0.66	\$0.63	\$0.64	\$0.71	\$0.69	\$0.58	\$0.72
DPS	\$0.33	\$0.37	\$0.49	\$0.55	\$0.60	\$0.51	\$0.55	\$0.61	\$0.67	\$0.71	\$0.43	\$0.53
Shares¹	207	238	256	274	432	489	526	599	654	683	693	843

Investors should note that Algonquin previously paid Canadian dollar-denominated dividends and only started paying a U.S. dollar-denominated dividend in 2014. It also began reporting in US\$ in 2018. So, in the table above, the EPS from 2013 to 2017 are in CAD\$. To match the dividends with the earnings, the dividend-per-share is also displayed in CAD\$ from 2013 to 2017. From 2018 and onwards, the data is in US\$. Historically, Algonquin's EPS has been volatile. However, they appeared to be stable from 2019 to 2022, as the company increased its scale with a more diversified asset base that is largely regulated utilities with predictable returns or renewable facilities that generate stable cash flow long-term. Unfortunately, we're in an environment that requires a higher cost of capital. First, interest rates have gone up. Second, it's common for Algonquin to use equity financing to make acquisitions, as its share count tripled from 2013. For example, in October 2021, Algonquin raised \$646 (C\$800) million via a bought deal equity financing at C\$18.15 per share to help fund the Kentucky Power acquisition. Today, the stock is down 50% from its 52-week high, making it a bad idea to raise capital from common stock offering. It should only issue new shares for growth when its stock has recovered

¹ Shares in millions.

Disclosure: Kay Ng owns shares of AQN.



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meaningfully. Assuming the closing of the Kentucky Power acquisition, Algonquin expects capital spending of \$3.6 billion. Currently, though, this acquisition is still an uncertainty. For now, we forecast an EPS growth rate of 4.5% through 2028. Our DPS estimate through the period is 4.0%.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	27.3	22.9	22.4	27.5	22.3	15.7	19.0	22.5	22.6	17.9	13.7	14.0
Avg. Yld.	4.6%	4.4%	4.8%	4.8%	4.7%	4.9%	4.6%	4.2%	4.4%	5.8%	5.5%	5.2%

From 2013-2022, the average price-to-earnings ratio was 22 and the average yield was 4.7%. However, Algonquin's growth is a bit uncertainty here given the Kentucky Power acquisition still awaits regulatory approval and there's a higher cost of capital. We reduced Algonquin's EPS growth rate to 4.5% and also slashed its target price-to-earnings ratio to 14. The stock is fairly valued. We believe Algonquin would not stray far away from a yield of about 5% in this higher interest rate environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

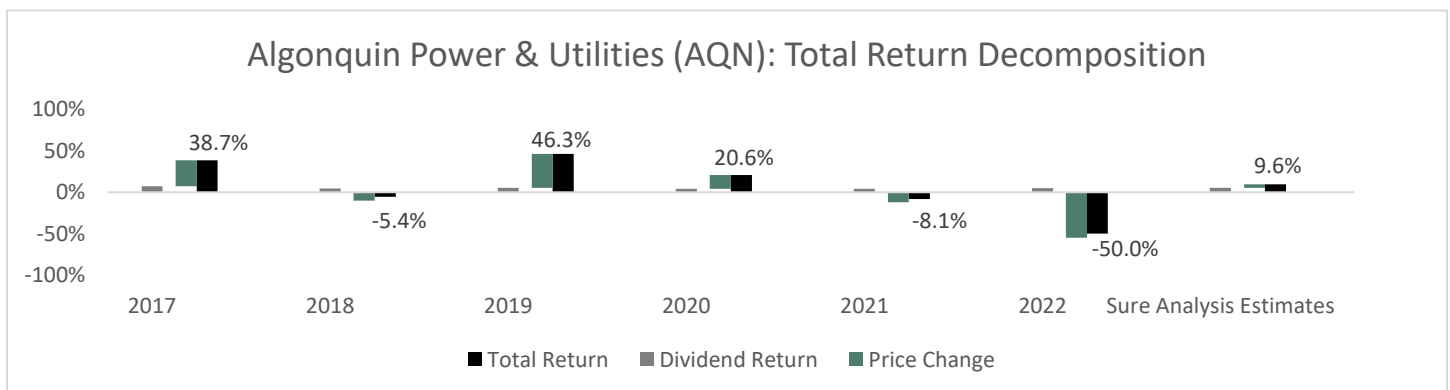
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	127%	100%	107%	131%	105%	77%	87%	95%	94%	103%	75%	73%

Algonquin cut its dividend in 2011 around the previous recession as earnings fell drastically. Most of the decade displayed payout ratios that were extended. Higher interest rates as well as being a utility that doesn't have the best of balance sheets, it cut its dividend again in 2023. That said, its earnings have been more stable since 2018 after switching to reporting in US\$ and primarily building operations that are either regulated or have 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. Its 2022 payout ratio was stretched again, leading to a dividend cut this year. Going forward, it'd be more prudent for the company to maintain a payout ratio around the 75% range. Therefore, we estimate a 4.0% dividend growth rate versus an estimated EPS growth rate of 4.5%. Algonquin has an investment-grade S&P credit rating of BBB.

Final Thoughts & Recommendation

Algonquin is a higher-risk utility due to its higher payout ratio and higher debt levels. The stock is fairly valued. Over the next five years, we estimate total returns of 9.6%, coming from a yield of 5.5%, growth of 0.4% from P/E expansion, and earnings growth of 4.5% per year. We rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	634	811	741	815	1,522	1,648	1,626	1,677	2,285	2765
Gross Profit	379	449	469	596	1,129	1,164	1,183	1,276	1,566	1899
Gross Margin	59.7%	55.3%	63.3%	73.1%	74.2%	70.6%	72.7%	76.1%	68.5%	68.7%
SG&A Exp.	22	30	29	34	59	53	74	90	83	91
D&A Exp.	93	99	109	146	257	261	284	314	403	456
Operating Profit	97	119	131	174	368	378	353	343	378	500
Operating Margin	15.3%	14.7%	17.7%	21.4%	24.2%	23.0%	21.7%	20.5%	16.6%	18.1%
Net Profit	19	65	85	97	149	185	531	782	265	-212
Net Margin	3.0%	8.0%	11.4%	11.9%	9.8%	11.2%	32.6%	46.7%	11.6%	-7.7%
Free Cash Flow	-56	-206	42	-88	-239	64	30	-281	-1,188	-470
Income Tax	9	14	32	28	73	53	70	65	-43	-62

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,265	3,534	3,597	6,138	8,396	9,399	10,921	13,224	16,786	17628
Cash & Equivalents	13	8	90	82	43	47	62	102	125	58
Accounts Receivable	151	162	135	141	245	246	259	233	301	404
Inventories	31	27	21	28	89	96	91	135	178	225
Goodwill & Int. Ass.	131	126	133	276	1,005	1,009	1,079	1,323	1,306	1417
Total Liabilities	1,888	1,952	1,946	4,288	5,075	5,701	6,514	7,235	9,084	10472
Accounts Payable	14	59	36	67	120	90	150	192	185	186
Long-Term Debt	1,179	1,095	1,071	3,178	3,080	3,337	3,932	4,538	6,211	7512
Shareholder's Equity	788	1,125	1,240	1,272	2,533	2,993	3,691	5,019	5,675	5035
D/E Ratio	1.31	0.84	0.77	2.22	1.13	1.05	1.01	0.87	1.06	1.44

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.6%	1.9%	2.4%	2.0%	2.1%	2.1%	5.2%	6.5%	1.8%	-1.2%
Return on Equity	2.4%	6.8%	7.2%	7.8%	7.9%	6.7%	15.9%	18.0%	5.0%	-4.0%
ROIC	0.8%	2.5%	3.1%	2.5%	2.6%	2.8%	6.9%	8.3%	2.2%	-1.5%
Shares Out.	207	238	256	274	432	489	526	599	654	677.9
Revenue/Share	3.08	3.75	2.89	2.98	3.94	3.54	3.22	2.97	3.63	4.1
FCF/Share	-0.27	-0.95	0.16	-0.32	-0.62	0.14	0.06	-0.50	-1.89	-0.7

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

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