



# Algonquin Power & Utilities Corp. (AQN)

Updated June 8<sup>th</sup>, 2023 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$9	<b>5 Year CAGR Estimate:</b>	7.2%	<b>Market Cap:</b>	\$6B
<b>Fair Value Price:</b>	\$8	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	06/29/23
<b>% Fair Value:</b>	107%	<b>5 Year Valuation Multiple Estimate:</b>	-1.3%	<b>Dividend Payment Date:</b>	07/14/23
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$10	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	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 ~10 years.

Algonquin reported its Q1 2023 results on 5/11/23. For the quarter, revenue rose 6% to \$778.6 million, adjusted net earnings declined 15% to \$119.9 million, and adjusted earnings-per-share (“EPS”) fell 19% to \$0.17. And its adjusted EBITDA, a cash flow proxy, increased by 3% to \$341 million, against Q1 2022. Its regulated utilities segment did well with operating profit climbing 10% to \$255.3 million year over year.

In March, Algonquin’s 112-MW Deerfield II wind facility came into service. In April, Algonquin terminated its acquisition of Kentucky Power. However, it reiterated its 2023 EPS guidance at \$0.55-\$0.61. Therefore, we maintain 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
<b>EPS</b>	\$0.26	\$0.37	\$0.46	\$0.42	\$0.57	\$0.66	\$0.63	\$0.64	\$0.71	\$0.69	<b>\$0.58</b>	<b>\$0.71</b>
<b>DPS</b>	\$0.33	\$0.37	\$0.49	\$0.55	\$0.60	\$0.51	\$0.55	\$0.61	\$0.67	\$0.71	<b>\$0.43</b>	<b>\$0.53</b>
<b>Shares<sup>1</sup></b>	207	238	256	274	432	489	526	599	654	683	<b>688</b>	<b>760</b>

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. The stock is about 40% below 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 meaningfully. Because Algonquin terminated the Kentucky acquisition, it only expects capital spending of \$1.0 billion this year (versus \$3.6 billion previously). We updated our forecast to an EPS growth rate of 4.0% through 2028. Our DPS estimate through the period remains at 4.0%.

<sup>1</sup> 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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## 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	15.0	14.0
Avg. Yld.	4.6%	4.4%	4.8%	4.8%	4.7%	4.9%	4.6%	4.2%	4.4%	5.8%	5.0%	5.3%

From 2013-2022, the average price-to-earnings ratio was 22 and the average yield was 4.7%. However, Algonquin's growth is expected to be lower in an environment of higher cost of capital. We estimate Algonquin's EPS growth rate to be 4.0% and also have a target price-to-earnings ratio of 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

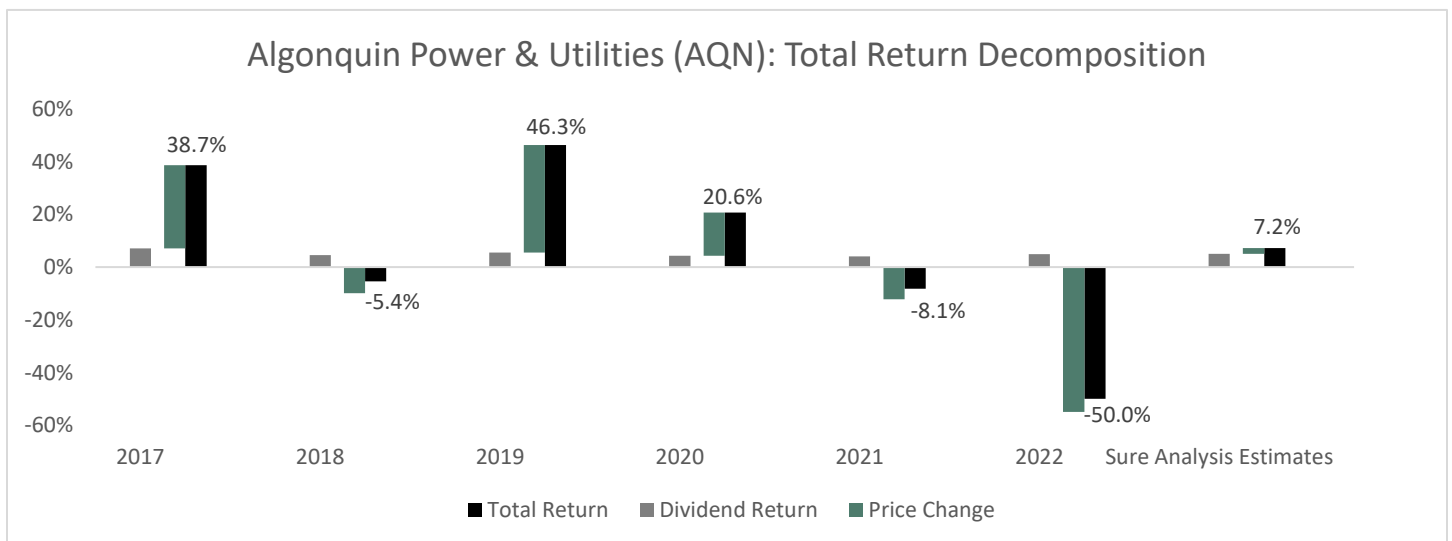
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	127%	100%	107%	131%	105%	77%	87%	95%	94%	103%	75%	75%

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 that should roughly align with its EPS growth rate. 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 7.2%, coming from a yield of 5.0%, P/E compression of 1.3%, and earnings growth of 4.0% 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
<b>Revenue</b>	634	811	741	815	1,522	1,648	1,626	1,677	2,285	2765
<b>Gross Profit</b>	379	449	469	596	1,129	1,164	1,183	1,276	1,566	1899
<b>Gross Margin</b>	59.7%	55.3%	63.3%	73.1%	74.2%	70.6%	72.7%	76.1%	68.5%	68.7%
<b>SG&amp;A Exp.</b>	22	30	29	34	59	53	74	90	83	91
<b>D&amp;A Exp.</b>	93	99	109	146	257	261	284	314	403	456
<b>Operating Profit</b>	97	119	131	174	368	378	353	343	378	500
<b>Operating Margin</b>	15.3%	14.7%	17.7%	21.4%	24.2%	23.0%	21.7%	20.5%	16.6%	18.1%
<b>Net Profit</b>	19	65	85	97	149	185	531	782	265	-212
<b>Net Margin</b>	3.0%	8.0%	11.4%	11.9%	9.8%	11.2%	32.6%	46.7%	11.6%	-7.7%
<b>Free Cash Flow</b>	-56	-206	42	-88	-239	64	30	-281	-1,188	-470
<b>Income Tax</b>	9	14	32	28	73	53	70	65	-43	-62

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	3,265	3,534	3,597	6,138	8,396	9,399	10,921	13,224	16,786	17628
<b>Cash &amp; Equivalents</b>	13	8	90	82	43	47	62	102	125	58
<b>Accounts Receivable</b>	151	162	135	141	245	246	259	233	301	404
<b>Inventories</b>	31	27	21	28	89	96	91	135	178	225
<b>Goodwill &amp; Int. Ass.</b>	131	126	133	276	1,005	1,009	1,079	1,323	1,306	1417
<b>Total Liabilities</b>	1,888	1,952	1,946	4,288	5,075	5,701	6,514	7,235	9,084	10472
<b>Accounts Payable</b>	14	59	36	67	120	90	150	192	185	186
<b>Long-Term Debt</b>	1,179	1,095	1,071	3,178	3,080	3,337	3,932	4,538	6,211	7512
<b>Shareholder's Equity</b>	788	1,125	1,240	1,272	2,533	2,993	3,691	5,019	5,675	5035
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	0.6%	1.9%	2.4%	2.0%	2.1%	2.1%	5.2%	6.5%	1.8%	-1.2%
<b>Return on Equity</b>	2.4%	6.8%	7.2%	7.8%	7.9%	6.7%	15.9%	18.0%	5.0%	-4.0%
<b>ROIC</b>	0.8%	2.5%	3.1%	2.5%	2.6%	2.8%	6.9%	8.3%	2.2%	-1.5%
<b>Shares Out.</b>	207	238	256	274	432	489	526	599	654	677.9
<b>Revenue/Share</b>	3.08	3.75	2.89	2.98	3.94	3.54	3.22	2.97	3.63	4.1
<b>FCF/Share</b>	-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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