



Algonquin Power & Utilities Corp. (AQN)

Updated November 10th, 2023 by Kay Ng

Key Metrics

Current Price:	\$6	5 Year CAGR Estimate:	13.9%	Market Cap:	\$3.9B
Fair Value Price:	\$7	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/28/23
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.2%	Dividend Payment Date:	01/15/24
Dividend Yield:	7.7%	5 Year Price Target	\$8	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.

Algonquin reported its Q3 2023 results on 11/10/23. It followed up with the announcement of a sales process for its renewable energy business, which will make the company a pure-play regulated utility. It is also searching for a more permanent CEO. Its regulated utilities are diversified across natural gas, electric, and water. It plans to use the proceeds from the sale of the renewable portfolio for debt reduction and share repurchases. The sale would also help support its current dividend, reduce its cost of capital, and maintain its investment-grade credit rating of BBB. The successful sale of the renewable portfolio should help the utility stock trade closer to the multiple of its regulated utility peers.

For the quarter, revenue dropped 6% to \$624.7 million, adjusted net earnings rose 8% to \$79.3 million, and adjusted earnings-per-share ("EPS") was flat at \$0.11. Its adjusted EBITDA, a cash flow proxy, rose 2% to \$281.3 million, against Q3 2022.

Algonquin noted that the year-to-date results were challenged by unfavorable weather. The year-to-date revenue growth was 1% to \$2.0 billion year over year. The adjusted EPS declined by 23% to \$0.36, while the adjusted EBITDA rose 1% to \$900 million. To be more cautious, we reduced our 2023 EPS estimate to \$0.53.

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	\$0.53	\$0.64
DPS	\$0.33	\$0.37	\$0.49	\$0.55	\$0.60	\$0.51	\$0.55	\$0.61	\$0.67	\$0.71	\$0.43	\$0.50
Shares¹	207	238	256	274	432	489	526	599	654	683	689	761

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. They appeared to stable from 2019 to 2022, as the company increased its scale with a more diversified asset base that was largely regulated utilities with predictable returns or renewable facilities that generate stable cash flow long-term.

Unfortunately, the company was hit by rising interest rates, leading to a higher cost of capital. The successful sale of the renewable portfolio would be a good opportunity to reduce its debt levels. A focused regulated utilities might be able to drive higher growth (potentially 5-6%) than what we anticipate. Until the sale actually occurs and Algonquin provides a clearer growth outlook, we are setting our forecast at an EPS of 4.0% and a lower DPS growth rate of 3.0% through 2028 due to its relatively high payout ratio.

¹Shares 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.



Algonquin Power & Utilities Corp. (AQN)

Updated November 10th, 2023 by Kay Ng

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	10.6	13.0
Avg. Yld.	4.6%	4.4%	4.8%	4.8%	4.7%	4.9%	4.6%	4.2%	4.4%	5.8%	7.7%	6.0%

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 also expect it to trade at a discount valuation versus the utility sector because of the higher uncertainty in its outlook. For now, we estimate Algonquin's EPS growth rate to be 4% and also target a price-to-earnings ratio of 13. The stock appears to be slightly undervalued. We expect the market to demand a higher yield from higher-uncertainty AQN versus the sector.

Safety, Quality, Competitive Advantage, & Recession Resiliency

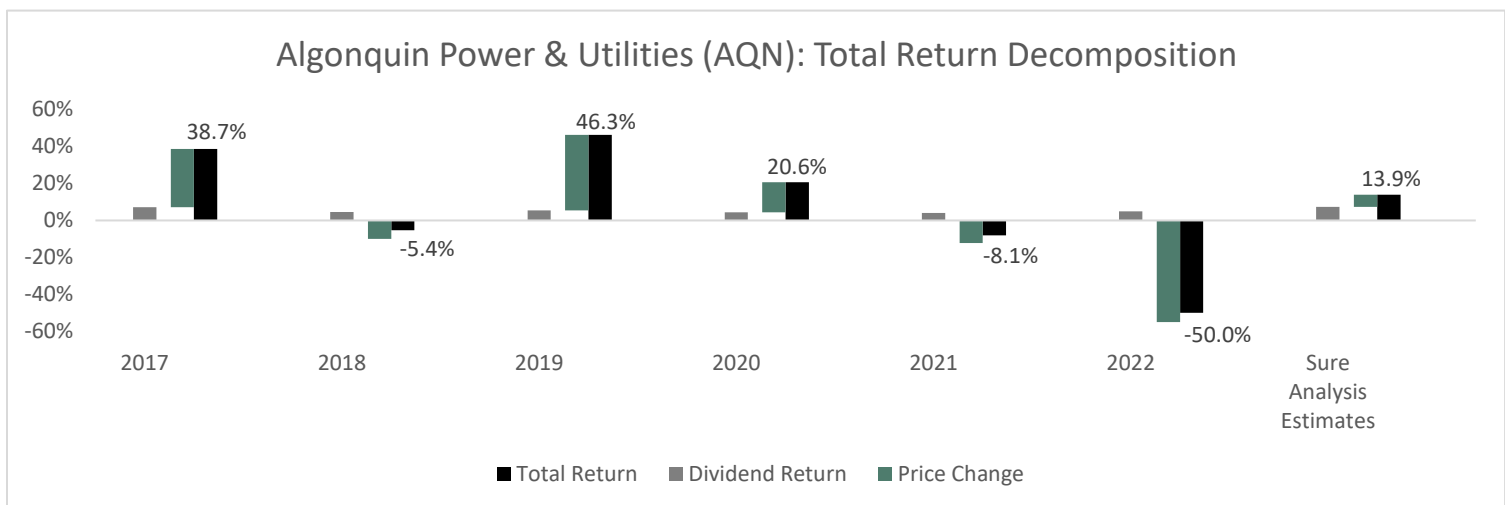
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	127%	100%	107%	131%	105%	77%	87%	95%	94%	103%	82%	78%

Given that Algonquin cut its dividend in 2011 and again in 2023, it's safe to say that it does not have competitive advantages. It 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. It's not the best time to sell renewable assets, as valuations have gone down due to higher interest rates and capital tightening. However, a successful sale could help the company reduce its debt levels and improve its balance sheet. After the 2023 dividend cut, its payout ratio is more sustainable. And we think a dividend growth rate of ~3% may be achievable. Algonquin has an investment-grade S&P credit rating of BBB.

Final Thoughts & Recommendation

Algonquin is a higher-risk utility due to its higher debt levels and higher near-term uncertainties regarding the renewable portfolio and management change. That said, if the company executes well, it could still be a good investment. Over the next five years, we estimate potential total returns of 13.9%, coming from a yield of 7.7%, P/E expansion of 4.2%, and earnings growth of 4.0% per year. We rate the stock as a "hold" given the higher risk & uncertainty and that there are better-quality dividend stock ideas within the Sure Dividend coverage universe.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Algonquin Power & Utilities Corp. (AQN)

Updated November 10th, 2023 by Kay Ng

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.