



# Algonquin Power & Utilities Corp. (AQN)

Updated March 13<sup>th</sup>, 2024 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$6	<b>5 Year CAGR Estimate:</b>	11.9%	<b>Market Cap:</b>	\$4.4B
<b>Fair Value Price:</b>	\$7	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	03/27/24
<b>% Fair Value:</b>	93%	<b>5 Year Valuation Multiple Estimate:</b>	1.5%	<b>Dividend Payment Date:</b>	04/15/24
<b>Dividend Yield:</b>	6.9%	<b>5 Year Price Target</b>	\$9	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<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.

In 2023, Algonquin terminated the Kentucky Power deal, and announced its intent to sell its renewable energy business, which will make the company a pure-play regulated utility. It is also searching for a 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.

In March 2024, Algonquin stated that it plans to announce the sale of its renewable energy business by mid-2024, as it already has prospective buyers, and expects to complete the transaction within the year. As a result, 2024 will be a transformational year for Algonquin.

Algonquin reported its Q4 2023 results on March 8<sup>th</sup>, 2024. For the quarter, revenue dropped 11% to \$666.9 million, adjusted net earnings rose 18% to \$115.5 million, and adjusted earnings-per-share ("EPS") increased 14% to \$0.16. Its adjusted EBITDA, a cash flow proxy, rose 13% to \$334.3 million, against Q4 2022.

For the full year 2023, adjusted EPS declined by 13% to \$0.53, while adjusted EBITDA rose 4% to \$1.23 billion.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$0.37	\$0.46	\$0.42	\$0.57	\$0.66	\$0.63	\$0.64	\$0.71	\$0.61	\$0.53	<b>\$0.52</b>	<b>\$0.66</b>
<b>DPS</b>	\$0.37	\$0.49	\$0.55	\$0.60	\$0.51	\$0.55	\$0.61	\$0.67	\$0.71	\$0.43	<b>\$0.43</b>	<b>\$0.50</b>
<b>Shares<sup>1</sup></b>	238	256	274	432	489	526	599	654	683	689	<b>700</b>	<b>765</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 2014 to 2017 are in CAD\$. To match the dividends with the earnings, the dividend-per-share is also displayed in CAD\$ from 2014 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 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 5.0% and a lower DPS growth rate of 3.0% through 2029 due to its relatively high payout ratio.

<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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	22.9	22.4	27.5	22.3	15.7	19	22.5	22.6	17.9	13.8	<b>12.0</b>	<b>13.0</b>
Avg. Yld.	4.4%	4.8%	4.8%	4.7%	4.9%	4.6%	4.2%	4.4%	5.8%	8.4%	<b>6.9%</b>	<b>5.8%</b>

From 2014-2023, the average price-to-earnings ratio was 20.7 and the average yield was 5.1%. 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 peg fair value for Algonquin to be a price-to-earnings ratio of 13. The stock appears to be slightly undervalued. Its current yield of 6.9% is well above its average yield of 5.1%, which could indicate that shares are undervalued here.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

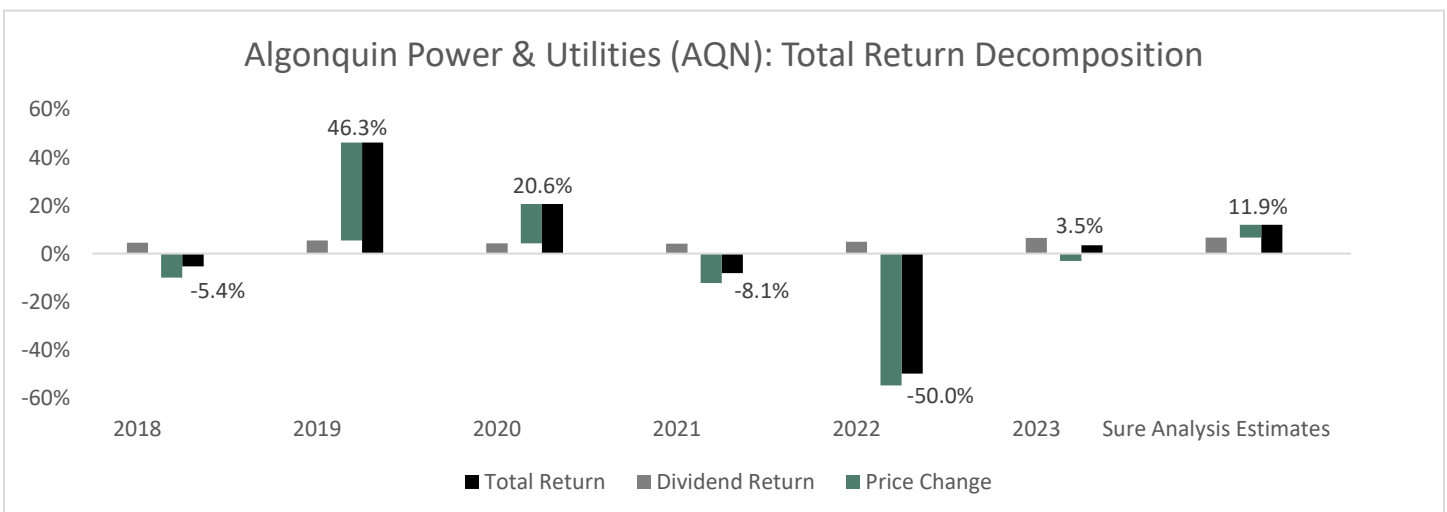
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	100%	107%	131%	105%	77%	87%	95%	94%	116%	81%	<b>83%</b>	<b>76%</b>

Given that Algonquin cut its dividend in 2011 and again in 2023, it's safe to say that it does not have durable competitive advantages. It cut its dividend in 2011 around the previous recession as earnings fell drastically. Algonquin's payout ratio has been extended for most of the past decade. Higher interest rates and a shaky balance sheet led to another dividend cut 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 11.9%, coming from a yield of 6.9%, P/E expansion of 1.5%, and earnings growth of 5.0% 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



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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.

### Disclaimer

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