

Company: Algonquin Power and Utilities

Recommendation: BUY, 165 Shares, Value: \$16.28 Intrinsic Value: \$27.24

Date: 2/11/20

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Executive Summary

Algonquin Power and Utilities (AQN) owns and operates a diversified portfolio of North American rate-regulated and non-regulated electricity, natural gas, and water utility business. The holding's market performance has been excellent Year over Year, consistent with their superior fundamentals. AQN returned 42.07% in 2019, growing its share price to \$14.15. Since 2014, the share has grown 117.36%, with a price of \$6.51 in 2014.[4] Such performance may warrant a growth or momentum label, however, AQN's mid-sized market capitalization (\$7.6B), price to cash flow (11.02), bet).2 (0)8.78, the efficiency make AQN an attractive investment in the

growth the next year as well (8%), as AQN continued to assimilate the acquisition seamlessly into their operations.[1,2] Notable acquisitions in 2019 included New Brunswick Gas systems, which added approximately 12,000 customers and 1,200 km of natural gas distribution pipeline, and St. Lawrence Gas Company, which added approximately 17,000 customers and 1,100 km of natural gas pipeline.[1] These transactions represented the firm's conscious effort to establish distribution pipeline into the Northeastern United States.

Dividend growth

In addition to the market gains that can be expected from AQN, the firm also pays a 3.65% dividend (2019).[2] The firm's 5-year sequential dividend growth is documented at 6.32%.[2] Both figures are competitive in their industry.

Sector performance

The Utilities sector continues to provide strong returns and operate as a sector of the market that is contrary and defensive. The Spyder Utilities ETF (XLU) returned 22.69% in 2019, trailing the SPY ETF at 29.85%.[3] The Utilities sector operates as the lowest correlate to most of the market indexes and other market leading sectors (See Appendix 4). With this relationship, as well as generally low betas and a high count of firms that meet traditional 'value' screener criteria, a growing utility firm can be the perfect complement to a momentum equity approach.

Valuation, Recommendation, & Risks

A series of value modeling was used to determine the intrinsic value of AQN. Blending the Best Consensus Revenue DCF, 5-Year Moving trend DCF, Best Consensus EPS DCF, and DDM, the aggregate intrinsic value for AQN is \$27.24.[2] With revenues projected to increase and operations expected to be more efficient and sustainable, with the firm's new renewable energy sources and distribution systems, shareholder value growth is expected.

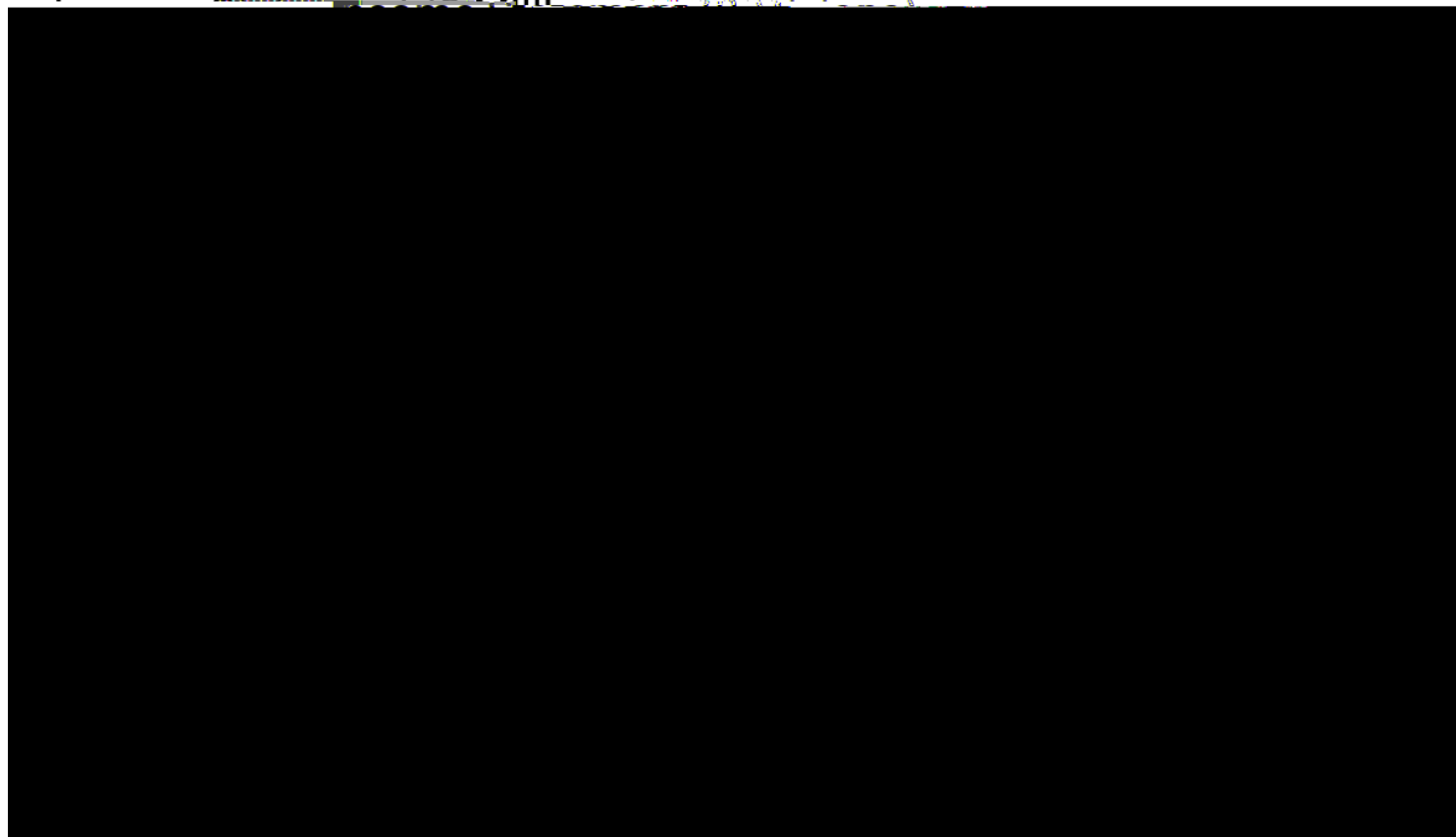
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Appendix

(Appendix 1)



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[1,2]

(Appendix 2)

AQN Margins	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Profit	33%	30%	36%	43%	44%	42%
Operating	15%	15%	18%	21%	24%	31%
Net Income (Adj)	9%	8%	11%	10%	13%	22%

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(Appendix 4)

[2]

(Appendix 5)

STOCK	Projected EV/EBITDA	P/E (TTM)	P/B	P/CF	EPS - 1 Yr Growth	EBITDA Margin (TTM)	DPS growth	Current Shares Outstanding
AQN	14.70	21.8	2.43	11.07	91.67%	49.89%	6.32%	

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BKH	12.45	25.78	2.23	9.16	-25.84%	35.52%	10.88%	61.45M
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[2,3]

References

[1]Algonquin Power & Utilities > Investor Centre > Annual Filings

[2]Bloomberg

[3]Fidelity

[4]Yahoo! Finance