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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), beta (.49), and low liquidity (0.91 Current Ratio) may indicate it still has yet to reach its intrinsic value.[3] At a current share price of \$15.78, the firm's expansive mindset (evidenced by yearly acquisitions) and cost efficiency make AQN an attractive investment in the defensive Utilities Sector.

AQN US Equity		96) Actions		97) Export		98) Settings		Financial Analysis	
39) ADJ Algonquin Power & Utilities Corp		ASC 842		Periodicity		Annuals		Cur FRC (USD)	
1) Key Stats		2) I/S		3) B/S		4) C/F		5) Ratios	
6) Segments		7) Addl		8) ESG		9) Custom			
11) Adj Highlights		12) GAAP Highlights		13) Earnings		14) Enterprise Value		15) EV Ex Operating Leases	
16) Multiples		17) Pe...							
In Millions of USD		2012 Y	2013 Y	2014 Y	2015 Y	2016 Y	2017 Y	2018 Y	
12 Months Ending		12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	
Market Capitalization		1,297.8	1,425.1	1,976.5	2,018.8	2,321.1	4,846.0	4,937.7	
- Cash & Equivalents		53.4	13.0	8.0	89.9	82.1	43.5	46.8	
+ Preferred & Other		604.5	590.1	467.3	431.3	599.0	815.8	1,045.2	
+ Total Debt		775.7	1,181.4	1,094.9	1,075.2	3,176.2	3,084.9	3,336.8	
Enterprise Value		2,624.6	3,183.6	3,530.8	3,435.3	6,014.2	8,703.2	9,272.9	
Revenue, Adj		349.1	655.8	852.9	804.9	827.9	1,524.7	1,647.4	
Growth %, YoY		28.8	93.6	39.4	9.2	6.6	80.5	8.0	
Gross Profit, Adj		110.8	216.6	259.7	291.6	353.3	669.7	690.8	
Margin %		31.7	33.0	30.4	36.2	42.7	43.9	41.9	
EBITDA, Adj		91.5	193.7	227.8	261.2	325.0	622.8	799.3	
Margin %		26.2	29.5	26.7	32.5	39.3	40.8	48.5	
Net Income, Adj		19.4	61.3	68.9	87.4	85.5	197.2	364.9	
Margin %		5.6	9.3	8.1	10.9	10.3	12.9	22.1	
EPS, Adj		0.12	0.28	0.32	0.34	0.31	0.51	0.78	
Growth %, YoY		-63.7	140.9	14.2	5.4	-8.1	62.9	54.0	
Cash from Operations		64.8	96.1	174.6	205.1	217.0	352.9	530.4	
Capital Expenditures		-75.7	-153.8	-391.6	-159.9	-306.5	-570.5	-466.4	
Free Cash Flow		-11.0	-57.7	-217.1	45.2	-89.5	-217.6	64.0	

[2]

## Company Overview

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Algonquin was founded in 1988 and is based in Oakville, Ontario, CA. They consist of two subsidiaries: Liberty Utilities Group and Liberty Power Group. Liberty Utilities Group operates regulated utility systems in the United States and Canada, serving approximately 801,00 connections through electrical energy, natural gas, and water distribution. While Liberty Power Group generates and sells electrical energy by its renewable power generation and clean power generation facilities located across North America, these include electrical, hydroelectric, wind, solar and thermal energies. Algonquin spans 1 Canadian Province 13 states, emphasizing the Pacific Northwest, Midwest, and Mid-Atlantic; total pipeline splits for the United States and Canada are 70/30, respectively. The firm's combined gross generating capacity is approximately 1.5 GW, with 86% of its electric output sold pursuant to long-term contractual arrangements which have a production weighted average remaining contract life of 14 years.[1] Liberty Power Group's revenue splits between sources of energy is as follows: Wind 54%, Hydro 17%, Thermal 17%, and Solar 13%. Liberty Utilities Group's revenue splits between sales of energy is as follows: Electric 67%, Natural Gas 14%, Water & Wastewater treatment 16%.[1] The firm has been increasing their percentage of revenue from distribution of energy (Liberty Utilities) compared to generation of energy (Liberty Power). As of 2019, AQN reported approximately 85% of their revenue coming from energy distribution, with 15% sourced from energy generation.[2]

## Investment Thesis

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### Strong fundamentals

Algonquin has consistently demonstrated a pattern of revenue growth, cost reduction, and forward-thinking capital management. (See Appendix 1) Since 2013, the firm has seen its annual revenue growth surge from \$656M to \$1,647M (as reported in 2018) (+119%).[1,2] This jump was assisted by a major acquisition in 2017 (See Acquisitions), which helped increase revenue by 84% between 2016 and 2017. Disregarding this YoY outlier, the firm averaged 8.75% annual revenue growth among all other years since 2013. The firm's profit, operating, and gross margins have also increased, which is an indication of the firm's ability to grow sales, while maintaining costs, evidence of lean growth (See Appendix 2). AQN's EBITDA margin reached 49.9% (48.5% Adj.) in 2018, a leading figure among peers in the electric and gas utilities industry.[1,2,3]

In addition to growing sales and managing costs effectively, AQN has used cash strategically to accomplish business objectives and sustain shareholder value. As evidenced in Appendix 3, AQN has consistently committed to their investing activities, with the most active accounts being Increase in Long Term Investments, Acquisitions of operating entities, and Additions of Property Plant and Equipment, since 2013. The total investment within these three accounts totaled over \$5.57B from 2013 to 2018.[1,2] For their acquisition of Empire District Gas in 2017, AQN financed this action using debt and equity in tandem, increasing long term debt by \$2.4B and issuing shares totalling \$440M in 2016.[1] AQN continues to fund investments using a combination of debt and issuances of shares, while still being able to decrease their LT debt in following years and sustaining shareholder value, as evidenced by their gradual price and dividend growth during this period.[4] A final indication of AQN's excellent cash management: during this same period of time, the firm has been able to grow their operating cash flows averaging 43.6% growth YoY.[1,2]

### Acquisitions

Algonquin has accumulated a series of smaller firms in its growth within the last 5 years. The one acquisition that was most profound on the firm was the deal for Empire District Gas Company in 2017, which cost approximately \$2.B CD.[1] This acquisition had an immediate impact on revenue, increasing this figure by 84% from 2016 to 2017. There was sustained

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**

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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.

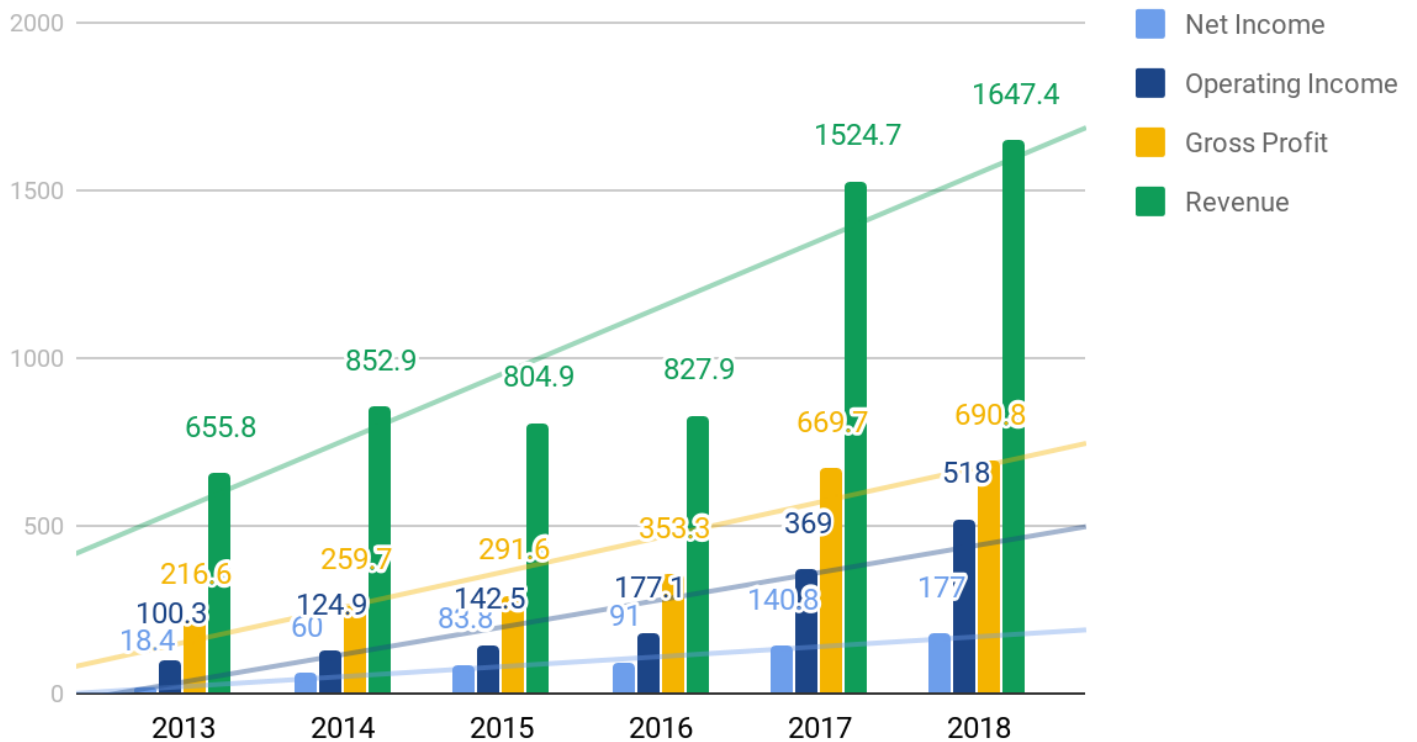
Inconsistent free cash flow, following the subtraction of capital expenditures, has shown to be the only risk. However, AQN has shown the ability to manage cash with intentionality to execute business objectives, while maintaining a debt level that is average to below average in the sector (51.6%). [1] Additionally, the continued price rise may present a concern as far as obtaining the best possible value for the share. As many of the value metrics and fundamentals indicate, there is still room for AQN to grow in the market despite its already impressive rise.

Action	Shares	Target percentage	Dollar amount
SELL: <b>IWN</b>	21 Shares	Target: 3.5%	\$2,662
BUY: <b>AQN</b>	163 Shares	Target: 3.5%	\$2,653

Appendix

(Appendix 1)

Income Statement (\$ Millions)



[1,2]

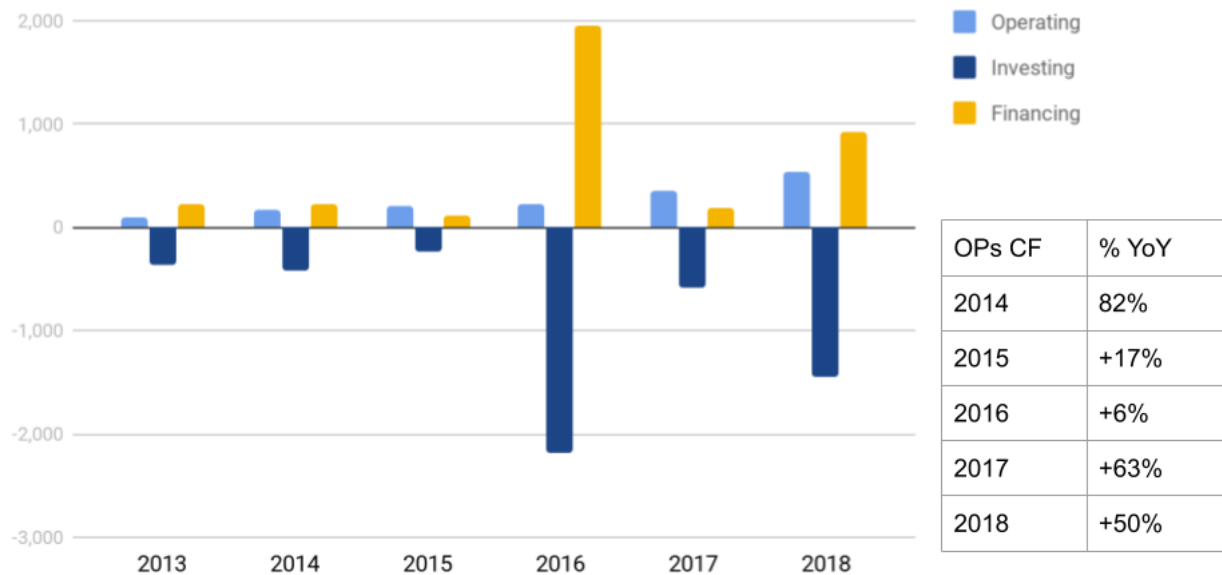
**(Appendix 2)**

<b>AQN Margins</b>	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%
EBITDA	26.7%	32.5%	39.3%	40.9%	48.5%	49.9%

[1,2]

**(Appendix 3)**

Statement of Cash Flows (\$ Millions)



[1,2]

**(Appendix 4)**

1) Edit 2) Actions 3) Add Matrix Shortcut 4) Settings My Correlation Matrices: AQN									
02/05/2019 - 02/05/2020		Daily			Calculation		Correlation		Local CCY
<Filter>	Correlation Matrix (7 Rows x 7 Columns)								
Security	AQN	XLK	XLF	SPY	XLC	XLV	XLU		
1) AQN	1.000	0.095	-0.043	0.110	0.125	0.107	0.530		
2) XLK	0.095	1.000	0.737	0.931	0.798	0.656	0.114		
3) XLF	-0.043	0.737	1.000	0.871	0.643	0.603	0.067		
4) SPY	0.110	0.931	0.871	1.000	0.830	0.778	0.204		
5) XLC	0.125	0.798	0.643	0.830	1.000	0.616	0.090		
6) XLV	0.107	0.656	0.603	0.778	0.616	1.000	0.273		
7) XLU	0.530	0.114	0.067	0.204	0.090	0.273	1.000		

[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%	524.22M
SJI	14.04	34.17	2.03	31.43	28.30%	19.60%	2.73%	92.39M
NRG	8.04	10.02	-	8.69	67.05%	18.50%	0%	251.51M
NWE	12.83	18.74	2.07	13.38	-23.21%	34.20%	4.76%	50.45M

Company: Algonquin Power and Utilities

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

Date: 2/11/20

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

## References

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

[2]Bloomberg

[3]Fidelity

[4]Yahoo! Finance