S&P Global
Market Intelligence

Algonquin Power & Utilities Corp. TSX:AQN

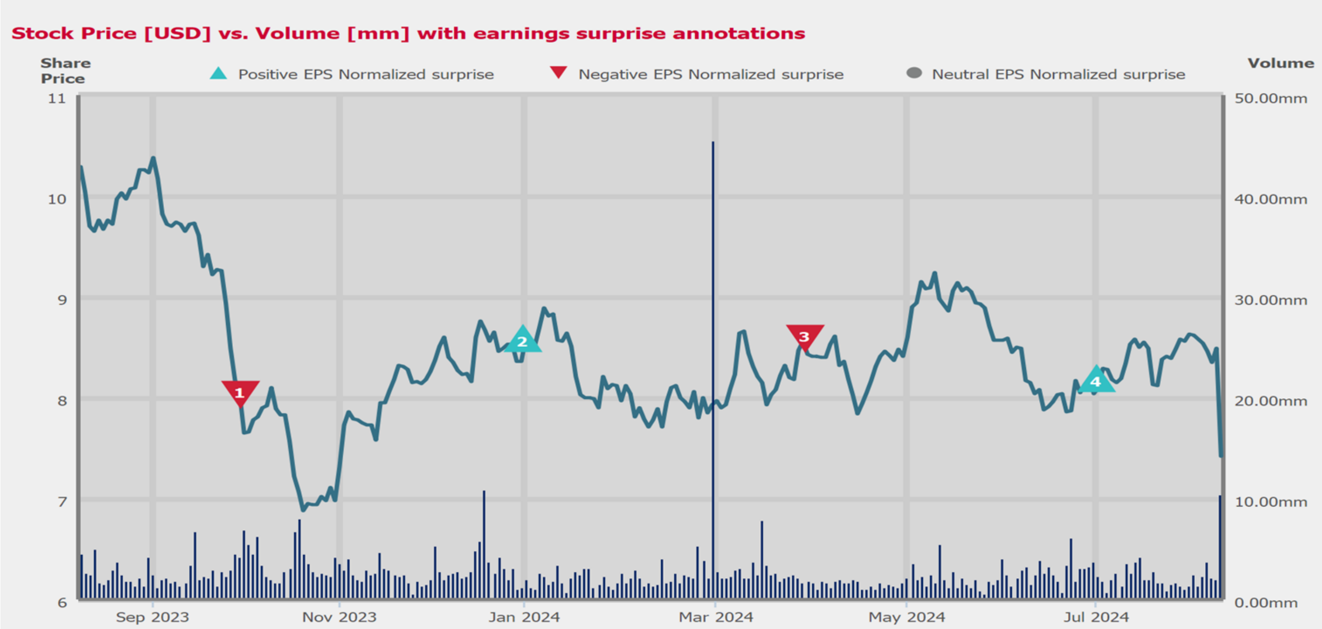
FQ2 2024 Earnings Call Transcripts

Friday, August 9, 2024 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2024-			-FQ3 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.08	0.09	▲12.50	0.11	0.48	NA
Revenue (mm)	635.95	598.63	▼(5.87 %)	660.31	2873.09	NA

Currency: USD
Consensus as of Aug-09-2024 9:59 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2023	0.12	0.11	▼1 (8.33 %)
FQ4 2023	0.15	0.16	▲2 6.67 %
FQ1 2024	0.16	0.14	▼3 (12.50 %)
FQ2 2024	0.08	0.09	▲4 12.50 %

Table of Contents

Call Participants

EXECUTIVES

Brian James Chin
Vice President of Investor Relations

Christopher G. H. Huskilson
CEO & Director

Darren G. Myers
Chief Financial Officer

ANALYSTS

Mark Thomas Jarvi
CIBC Capital Markets, Research Division

Nelson Ng
RBC Capital Markets, Research Division

Rupert M. Merer
National Bank Financial, Inc., Research Division

Sean Steuart
TD Cowen, Research Division

Presentation

Operator

Hello, and welcome to the Algonquin Power & Utilities Corp., Second Quarter 2024 Earnings Conference Call. [Operator Instructions]

I will now turn the conference over to Mr. Brian Chin, Vice President of Investor Relations. Please go ahead.

Brian James Chin
Vice President of Investor Relations

Thanks, and good morning, everyone. Thank you for joining us for our second quarter 2024 earnings conference call. Speaking on the call today will be Chris Huskilson, Chief Executive Officer; Darren Myers, Chief Financial Officer; Jeff Norman, President of Renewables; and Sarah MacDonald, Chief Transformation Officer.

To accompany today's earnings call, we have a supplemental webcast presentation available on our website, algonquinpower.com. Our financial statements and management discussion and analysis are also available on the website as well as on SEDAR+ and EDGAR.

We would like to remind you that our discussion during the call will include certain forward-looking information and non-GAAP measures. Actual results could differ materially from any forecast or projection contained in such forward-looking information. Certain material factors and assumptions were applied in making the forecasts and projections reflected in such forward-looking information.

Please note and review the related disclaimers located on Slide 2 of our earnings call presentation at the Investor Relations section of our website at algonquinpower.com. Please also refer to our most recent MD&A filed on SEDAR+ and EDGAR and available on our website for additional important information on these items, including the material factors that could cause actual results to differ materially and the factors and assumptions applied in making such forecasts and projections.

On the call this morning, Chris will provide an update surrounding the renewable sales agreement, which was press released this morning and on the company's ongoing strategic transition to a pure-play regulated utility. Then Darren will review key highlights pertaining to our regulated and renewables business groups and our second quarter financial results. Darren will also provide some color on the financial outlook following the expected sale of the Renewables business and then Chris will close with some final remarks. We will then open the lines for the question-and-answer period. [Operator Instructions]

With that, I'll turn it over to Chris.

Christopher G. H. Huskilson
CEO & Director

Thank you, Brian, and good morning, everyone. After being in the CEO role for a year, I'm more convinced than ever that our current path towards a pure-play regulated utility supports our goals to create long-term value, increase our quality of earnings and bring increased focus to improving our execution. A year ago, I set 3 priority goals to sell the renewables business, optimize the value of AY and to get the regulated business up and running.

Today, I'm pleased to announce the successful sale of our Renewables business at a valuation of $2.5 billion. As we set out to accomplish in our 2023 strategic review, we've achieved a deal at a compelling value for our platform business with strong assets and scale. As we set out to accomplish sorry -- this agreement between Algonquin and LS Power for the company's non-hydro renewable energy business, consisting of $2.28 billion in cash proceeds and $220 million in an earn-out agreement relating to certain wind assets.

I just want to take this moment to thank the team from across Algonquin, for the tireless efforts that they put in. It was a great job team. Thank you very much. This major milestone, coupled with our previously announced support agreement to sell our Atlantica shares, delivers on our plan to transform Algonquin into a pure-play regulated utility, optimize our regulated business activities, strengthen our balance sheet and enhance our quality of earnings.

As Darren will touch on shortly, we expect to use the proceeds upon close in late '24 or early 2025, to recapitalize our balance sheet and position ourselves for future growth. We're also making progress on our goal to get the regulated business up and running. We reorganized along commodity lines to improve operational efficiency.

We recently completed the implementation of our customer-first enterprise platform which promises to deliver value to our customers and substantial efficiencies. We added 3 new experienced board members with extensive infrastructure and regulated utility experience. We're implementing fundamental changes to how we operate the company with increased accountability. This is the beginning of a multiyear journey to unlock the value of our regulated business.

In addition, we're making changes at the executive level. Yesterday, the company appointed Sarah MacDonald as Chief Transformation Officer. In her new role, Sarah will assume responsibility for utility operations and customer service. Sarah is a lawyer by training and has more than 2 decades of legal, human resources, and operational experience. She has a broad background having worked in the utility sector for more than 20 years, including roles in utility construction as President and CEO of Emera Caribbean, and as President of TECO services.

As part of this announcement, Chief Operating Officer, Johnny Johnston has left the company. I'd like to personally thank Johnny for his dedication and service, and his commitment as we wish him the best for his future endeavors. As we look forward, we're focused on delivering value to our shareholders in a more self-sufficient manner.

We see tremendous value in the business from investments we have made for our customers that are not yet in rates. We need to improve our recoveries, reduce our regulatory lag and absorb our growth. As a result, we will be reducing our regulated CapEx for 2025. Also as part of our objective to be more self-sufficient, the Board has decided to rightsize the dividend. So we're not chasing a high payout ratio and excessive equity raises. These are necessary steps that we expect to unlock more value in the long term for our shareholders.

Now let me provide more details on the business, starting with the investments not yet in rates. We currently estimate over $1 billion in assets are not yet authorized in rates or receiving optimized regulatory treatment. This represents a rare capital-light path to earnings growth. An example of this is our Sarival Wastewater Treatment Plant in Arizona. The plant is an important and currently operating asset enabling the local community to grow but is not yet in customer rates. Another is our customer-first SAP program, which, as I mentioned earlier, just completed its final implementation.

Our investment in the platform has been approved in 6 of our smaller jurisdictions but is not yet reflected in customer rates for the majority of our utilities. Our customer-first program is a world-class platform designed to facilitate greater operational efficiency and utility integration or improved customer service. It's worth calling out that we are now in the typical post-conversion adjustment period for these types of systems.

Our system implementation, combined with our most active rate case calendar in our history is causing some delays in our rate case filings, which we're working through. In terms of our rate case filings, I also want to call out changes to our expected regulatory calendar in a few of our jurisdictions, namely Missouri, New Hampshire and California. In respect to these jurisdictions, we're expecting delays of 1 to 2 quarters which will shift the beginning of our recoveries closer to 2026. These delays will, of course, impact short-term earnings.

While we have some challenges in the short term, the substantial value here is a disciplined capital-light trajectory to improve returns. With that, I'll turn it over to Darren.

Darren G. Myers
Chief Financial Officer

Thank you, Chris, and good morning, everyone. I'll start with the Regulated Services Group. During the second quarter of 2024, we received the final order for our BELCO utility in Bermuda, authorizing a revenue increase totaling $33.6 million over 2 years. New rates became effective on August 1, 2024.

In New York, we filed a joint proposal with the New York Department of Public Services staff resolving all contested issues and a final order is expected sometime in the third quarter. The Regulated Services Group currently has pending 14 rate reviews, totaling $131 million as of quarter end.

Turning now to a brief update on our Renewable Energy Group. Our construction trajectory for renewables remains on track. Our construction loan balance has fallen to $405 million due to the buyout of the new market solar and Shady Oaks II projects. By year-end, we expect that loan balance to round trip back up to a similar level where we started the year due to the completion of construction at Carvers Creek and Clearview.

I'll now turn to our financial results. Our second quarter financial performance delivered growth in each of our key financial metrics, EBITDA, adjusted net earnings and adjusted net earnings per share, with double-digit increases compared to the same period last year.

Operating profit growth for both the regulated and renewables business were largely as expected, with regulated growing 7% and renewables growing 31%. Adjusted EBITDA was $311 million, up 12% from the same period last year. Adjusted net earnings were $65.2 million, an increase of 16%. On a per share level, our second quarter adjusted net earnings per share was $0.09, a 13% increase from the second quarter of last year.

Let me briefly discuss individual EPS drivers. First, weather returned to a more normalized level, contributing approximately $0.03 to the upside year-over-year. Second, our regulated business operating profit grew organically by $0.02, primarily due to new rate implementations at several of the company's electric, gas and water utilities.

However, this was offset by a negative $0.02 year-over-year due to last year's benefit of a onetime retroactive rate order in California. Renewables also organically grew by $0.02, driven by contributions from new wind facilities, Deerfield II and Sandy Ridge II brought online last year. This was offset by a negative $0.01 due to development cost expenses, in part as a result of the simplification of our JV entity as discussed in prior quarters.

Depreciation contributed negative $0.02 and interest expense contributed a negative $0.01, excluding the impacts of our Empire bond securitization. And lastly, tax credits were a little better this year than we had projected being flat year-over-year. Turning now to key financing activities. During the quarter, the company settled the purchase contracts from its green equity units as expected issuing approximately 76.9 million common shares for proceeds of $1.15 billion. These proceeds were used to reduce existing indebtedness and for general corporate purposes. We ended the quarter with approximately 767 million shares issued and outstanding.

With the conclusion of the equity unit remarketing and as of June 30, 2024, we have refinanced approximately $2.5 billion of our borrowings over the trailing 12 months, and we have simplified our capital structure.

As Chris mentioned earlier, we are pleased to announce the sale of our renewables business. The transaction proceeds and valuation are compelling. We expect to close the sale in late 2024 or early 2025 and received net cash proceeds of approximately $1.6 billion after repaying construction financing in other customary adjustments. Proceeds from the renewable sale plus our Atlantica shares will leave us with a very strong balance sheet.

In addition, as we look forward, we are making changes to be more self-sufficient. We are looking at spending capital at a level just above requisite maintenance, safety and environmental requirements in order for the company to digest the impacts of investments already made on behalf of our customers. Once we improve our returns to a more appropriate level, we will have the opportunity to increase our capital spending in a disciplined way.

With regards to our newly reduced dividend, we see our revised dividend payout as roughly 60% to 70% of our optimized core regulated earnings power on our current assets. And although we are not providing guidance at this time, as described earlier, 2025 earnings will be impacted by rate case timing.

With that, I'll hand it back to Chris for some closing remarks.

Christopher G. H. Huskilson
CEO & Director

Thank you, Darren. In summary, we've achieved several major milestones and are delivering on our plan to transform Algonquin into a pure-play regulated utility. We're reducing our capital spend and dividend to position the company for greater long-term value creation. As we look forward, we expect to have a solid balance sheet, a healthy payout ratio, a capital-light path towards earnings and ultimately, dividend growth, all under for the first time, a focused company with a singular business model. It's a tremendous story, and we're excited for the future.
With that, we'll open the lines for calls. Operator?

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Rupert Merer from National Bank.

Rupert M. Merer
National Bank Financial, Inc., Research Division

Congratulations on getting to the conclusion of that deal. So if I can start by asking about the net cash proceeds of $1.6 billion. What does the walk down look like from the sale price? How much of that difference is related to taxes, transaction fees versus construction debt repayment?

Darren G. Myers
Chief Financial Officer

Yes. I mean, Rupert, it's primarily the construction loans. There's very little tax friction on the deal consistent with our original expectations. So the majority of it would be construction loans and then really just the transaction costs and some of the break fees on the APCo bonds would be included in that as well.

Rupert M. Merer
National Bank Financial, Inc., Research Division

And that construction debt, is that debt that's currently off balance sheet or yet to be incurred on your development pipeline?

Darren G. Myers
Chief Financial Officer

Yes. As I mentioned, so we -- the balance is lower as of the end of Q2, but we expect it to get back to similar levels that it was, call it, around the $700 million mark or just below that by the end of the year as we continue to build out Clearview and Carvers.

Rupert M. Merer
National Bank Financial, Inc., Research Division

And then on the transaction itself, can you walk us through your thoughts on the valuation? How much of this is, say, for your development pipeline versus your operating assets? And what's your perspective on the multiple that you're getting on the deal?

Darren G. Myers
Chief Financial Officer

Yes. Listen, we think it's an excellent multiple and a strong transaction. It's always hard to decipher what you're getting for the platform. But clearly, we see this as a -- with the earnout at 12.5x type multiple of next year's EBITDA, like estimated EBITDA and without the earnout more like close to 11.5x so really strong multiples. And so clearly, there was value seen and what the team has built over 30 years and the strong development pipeline and just the strength of the organization. So we're quite pleased with where that ended up.

Christopher G. H. Huskilson
CEO & Director

Yes. And Rupert, I think we said all along that in order for us to get to a sale of this business, we had to see value for the development pipeline. So we haven't tried to quantify that, but it's pretty clear to us that we [did] get paid for that.

Operator

Your next question comes from the line of Sean Steuart from TD Cowen.

Sean Steuart
TD Cowen, Research Division

Congrats on getting this over the line. Chris, the 60% to 70% payout ratio on EPS. Am I to take it that is from the starting point, 2025 post this asset sale? Or is that relative to where you would expect EPS to get to your rate case is normalized, I suppose?

Darren G. Myers
Chief Financial Officer

Yes, Sean, it's Darren here. Let me just jump in. The target payout has been set based on our current reg assets fully earning or earning closer to fully earning. Clearly, we're -- next year will be our first year as a pure-play regulated utility. We're in a multiyear journey. And as Chris highlighted through his prepared remarks, we have the most active rate cases we've had in history plus the implementation of a major system.

So from a timing perspective, we do expect some delays in 2025 with improvements in 2026. But just for clarity, that dividend rate has been set based on the current assets, including the $1 billion -- getting recovering that $1 billion of investments we've already made that's not in rates.

Sean Steuart
TD Cowen, Research Division

And then the follow-on question there is, you've indicated constraints capital investment in the regulated base and capital-light approach putting these assets that haven't been recognized in the rate base. How long do you anticipate that capital-light approach to last? And how does this feed into your expectation of midterm EPS growth off the reset base?

Christopher G. H. Huskilson
CEO & Director

Yes. Well, certainly, it really depends on how quickly we can advance the rate cases that we need to advance and our success rate on those. But I think we're talking about a few years. I mean that's the kind of time frame we'd be expecting. And at the end of the day, what we're really focused on doing is raising our game when it comes to how we work through things with regulators.

How we actually make decisions around regulatory investments and how we just advance this business. There's a substantial amount of work going on to improve the accountability across the business, and to improve the ability of our utility leaders to actually run those businesses. And all those things are going to be important parts of all this.

Darren G. Myers
Chief Financial Officer

Yes, Sean, we have thought we have to prove -- just to add to what Chris is saying, that we can add more capital in a disciplined way and get appropriate returns with very little regulatory lag. And that's -- I'm with Chris, and probably a few years of restraint, but we do see growth after that. And from the kind of 2025 starting point, we see an ability really to grow earnings without growing capital. So just by increasing the returns and getting more efficient in the business.

Operator

[Operator Instructions] Our next question comes from the line of Nelson Ng from RBC Capital Markets.

Nelson Ng
RBC Capital Markets, Research Division

Congrats on the transaction. So the first question, I just want to have a quick clarification. In terms of the 11.5x to 12.5x, next year's EBITDA, is it roughly the run rate EBITDA of the assets, assuming that they're fully constructed and commissioned? And does it exclude the development expenses that you have within that business?

Darren G. Myers
Chief Financial Officer

Yes. You got it, Nelson.

Nelson Ng
RBC Capital Markets, Research Division

And then the next question is just more of a capital allocation. Obviously, you will need to start the hydro sales process shortly if you haven't already started. But like with the proceeds, can you just talk about capital allocation in terms of debt reduction, share buybacks and I guess it's utility growth sometime whether it's next year or the year after?

Darren G. Myers

Chief Financial Officer

Yes, Nelson, I mean, really, for us, it's around getting that strong balance sheet, rightsizing the dividend primarily, this is all going to debt repayment. And of course, with that strong balance sheet, we will have some flexibility to make different choices from there. But the primary focus is really to be more self-sustaining, earn on what we have today and just be in a position of strength.

Christopher G. H. Huskilson
CEO & Director

Yes. And I'd say, Nelson, we're not ruling out buybacks but at the end of the day, it's flexibility that we want and strength in our balance sheet. Those are the two things that are primarily on our minds. And so at the end of the day, we'll make those decisions as time unfolds.

Nelson Ng
RBC Capital Markets, Research Division

Okay. So primarily debt repayment, but not ruling out buybacks?

Christopher G. H. Huskilson
CEO & Director

Correct.

Darren G. Myers
Chief Financial Officer

That's right.

Operator

Our next question comes from the line of Mark Jarvi from CIBC Capital Markets.

Mark Thomas Jarvi
CIBC Capital Markets, Research Division

Can you give us a bit more, yes, lots unpack here, very busy at the deal. Can you explain the sort of change in tone around the utility spend? Originally, it was that if the balance sheet was in a better position, you've got the proceeds you could accelerate spend. It's kind of going the opposite way here. I guess the issue of regulatory lag. But just trying to understand what's kind of transpired over the last few months here or quarter that really does have you really cutting back? Is it just a more challenging regulatory environment, the push out in some of the rate cases, it does seem a bit of a departure from what you guys were signaling before?

Christopher G. H. Huskilson
CEO & Director

Yes. Well, so we still see that future, as has been described as our future. But at the end of the day, we also believe we need to put a substantial amount of discipline into this business. And so as we work through accountability and how we want to structure and run our utilities, at the end of the day, the main word is discipline.

And so we want to be absolutely certain that we understand when we put $1 of capital in the business, how we're going to recover that dollar of capital and how we're going to -- how that's going to advance our relationship with our customers, the service to our customers and ultimately, value for our shareholders. And so that's really what we're working as we speak.

And as I said, one of my three goals originally was to get the business up and running the regulated business up and running as a normal regulated utility. And I've said to people all along for the past year that this utility was cobbled together. It wasn't running the way I would have expected it to run. And as we learn more about how it runs and the discipline that it needs in order to be a good solid investment for folks, that's really what we've come to. And that opportunity to do capital-light growth is one that is pretty unique and we're happy to be able to take advantage of that.

Darren G. Myers
Chief Financial Officer

And Mark, maybe just the only thing I'd just add to that is, nothing has changed from our view that we originally came out with, which is the ability to invest $1 billion a year in business. But I would say, I don't know if it's a change in tone because we've -- I think been very consistent. We need to get more discipline in the business. And if we don't have that right discipline, we can't go spend the capital. We need to be good stewards of the capital and do good things for our customers and for our shareholders. So you're seeing us, we're not -- we need to be better on our returns. And once we are there, we will spend more capital.

Mark Thomas Jarvi
CIBC Capital Markets, Research Division

Understood. And then, Darren, coming back to the question of where does the proceeds go? It doesn't seem like it's a buyback. You did mention that the APCo bond was a break fee. So I assume those get repaid as well as obviously the construction financing. If you think about then the residual proceeds, what you expect to get from Atlantica? You may be at a point where you don't have to pay more floating rate debt or variable rate debt and you be at your credit metrics, will you sit on a cash balance for a while? Is that the expectation here as you work through the repositioning of the utility franchise?

Darren G. Myers
Chief Financial Officer

Yes. I think we'll continue to look at what's the most optimal capital structure is after. I think there's lots of options to repay debt but have the ability to obviously flex up credit facilities up and down. So we'll give more of that. And we do plan as we've said before, we get closer to the closure of the renewables business to provide an Investor Day update, to give you lots of the questions that I know you that you have.

Christopher G. H. Huskilson
CEO & Director

Yes. And just remember, so a fair bit of time will pass before this cash actually comes to us. So that's another factor in this. It's going to take some time to get through the regulatory approvals and so on that we need for these investments or these transactions, including AY. We're not sure exactly when that will get approved either.

Mark Thomas Jarvi
CIBC Capital Markets, Research Division

Right. And then just Darren, as a follow-up of some improved disclosure assurance and use pro forma utility business after the close of the sale. I know you're trying to infer to us where the earnings is going to be with the payout ratio. But is there something where you could actually show the trajectory as you go into '25, '26, '27? Is that something where you think you could be a bit more explicit on the earnings outlook on an annual basis whether that's guidance on a multiyear basis or just a cadence of EPS uplift over time?

Darren G. Myers
Chief Financial Officer

Yes. No, absolutely. We will, like I said, at an Investor Day, we'll give you as much transparency as we can so that you understand what we're doing and what you should be holding us accountable to, we're not prepared to do that today, but we definitely will as we get closer to the closure of the deal give you more.

Christopher G. H. Huskilson
CEO & Director

Yes. And as we get into some of these regulatory processes, we'll have a better idea as to when these things might close. So that will be the biggest factor is when do we actually see the proceeds.

Operator

There are no further questions at this time. I will turn the call over to Mr. Chris Huskilson.

Christopher G. H. Huskilson
CEO & Director

Okay. Well, with that, we'd like to thank everyone for their interest in Algonquin. And also, again, I want to thank the team from across the entire business that actually pulled this together. The folks in the renewable side and the folks across the business. This was a tremendous effort and obviously very successful. So thank you all for that. And thank you for your time today.

Operator
This concludes today's conference call. You may now disconnect.

Equity Research

WELLS FARGO

Company Update — July 1, 2024

Diversified Electric Utilities

Algonquin Power & Utilities Corp. (AQN)

Adding AQN to Q3 '24 Tactical Ideas List

Our Call

We view the likely sale of AQN's renewables franchise as a potentially meaningful catalyst. We reiterate our OW and forward PT of $8.50 (16X our 25E EPS of $0.53)—an attractive 50% total return opportunity incl. the ~7% dividend yield.

Equity Analyst(s)

Neil Kalton, CFA
Equity Analyst | Wells Fargo Securities, LLC
Neil.Kalton@wellsfargo.com | 314-875-2051

Amanda Bersing
Associate Equity Analyst | Wells Fargo Securities, LLC
Amanda.Bersing@wellsfargo.com | 314-875-2048

Rating	Overweight
Ticker	AQN
Price Target/Prior:	$8.50/NC
Upside/(Downside) to Target	**45.1%**
Price (06/28/2024)	**$5.86**
52 Week Range	$4.92 - 8.49
Shares Outstanding (MM)	767
Market Cap (MM)	$4,493
Enterprise Value (MM)	$12,933
Average Daily Volume	2,151,210
Average Daily Value (MM)	$13
Dividend (NTM)	$0.43
Dividend Yield	7.4%
Net Debt (MM) - last reported	$8,440
ROIC - Current year est.	0%
3 Yr EPS CAGR from current year (unless otherwise noted)	0%

$ EPS	2023A	2024E Curr.	2024E Prior	2025E Curr.	2025E Prior
Q1 (Mar)	0.17 A	0.14 A	NC	-	NC
Q2 (Jun)	0.08 A	0.08 E	NC	-	NC
Q3 (Sep)	0.11 A	0.12 E	NC	-	NC
Q4 (Dec)	0.16 A	0.17 E	NC	-	NC
FY	0.53 A	0.51 E	NC	0.53 E	NC
P/E	11.1x	11.4x		11.1x	

Source: Company Data, Wells Fargo Securities estimates, and Factset.
NA = Not Available, NC = No Change, NE = No Estimate

Investment Thesis

We like the setup for AQN heading into Q3, a quarter in which investors could finally have clarity on the strategic review of the renewables platform. In our view, the share price reflects a pessimistic outcome (low sales price for the renewables). We believe the platform could fetch ~$2.4B in proceeds (~10.5X EBITDA), which can be used to recapitalize the company. Post the transition, AQN will be a fully regulated utility with a path toward 5-6% annual EPS growth.

End in Sight for Strategic Review (potentially Q3'24) + potential share repurchase upside: All signs point to AQN announcing a sale of the company's non-regulated renewables assets (we think could occur in Q3'24). We continue to estimate net proceeds of ~$2.35B, or 10.5X estimated normalized EBITDA of $225M. We believe market conditions have improved for AQN's renewables platform (incl. a ~8 GW pipeline) since the company announced the process in late '23 (strong U.S. electricity demand trends).

Assuming a sale, AQN will become a regulated utility with 90% of rate base in the U.S. & Canada. Combined with the estimated net proceeds from the pending sale of the AY interest (~$775M), we think AQN will be able to announce a ~$1B share repurchase (25% of current market cap). Our estimate is predicated on a post-sale target FFO/Debt ratio of ~13%.

EPS Outlook: Key assumptions underlying our 25E-28E EPS of $0.53, $0.56, $0.58 & $0.64 - (1) ~$1B share repurchase at YE'24 at a $7/sh avg. price, (2) mid-9% earned ROEs and (3) no external equity needs.

Attractive Total Return Potential: Our $8.50 PT is derived by applying a P/E multiple of 16X to our 25E EPS of $0.53 (in line with the '24 U.S. regulated utility median). The total return potential is ~50% incl. the 7% dividend yield. We consider the annual dividend rate of $0.43 to be secure.

Downside Risks

- The strategic review does not result in a sale of the contracted renewables franchise and/or projected sales proceeds are materially below our estimate.
- Pro forma EPS power is not sufficient to support the annual dividend rate.
- Regulatory risks associated with AQN's core regulated utility operations (adverse rate case outcomes).

All estimates/forecasts are as of 6/28/2024 unless otherwise stated. 7/1/2024 5:00:00EDT. Please see page 4 for rating definitions, important disclosures and required analyst certifications.
Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Wells Fargo Express Takeaways

Algonquin Power & Utilities Corp. (AQN) | Rating: Overweight | Price Target: $8.50
Analyst: Neil Kalton

Financials

FY (Dec) $ ESTIMATES	2023A	2024E	2025E
EPS			
Q1	0.17 A	0.14 A	-
Q2	0.08 A	0.08 E	-
Q3	0.11 A	0.12 E	-
Q4	0.16 A	0.17 E	-
AN	0.53 A	0.51 E	0.53 E
Rev. (MM)	2,698.0 A	2,896.4 E	2,685.6 E
EBIT (MM)	465.9 A	633.3 E	656.2 E
EBITDA (MM)	1.24B A	1.35B E	1.08B E
DPS	0.51 A	0.43 E	0.43 E

WELLS FARGO vs. CONSENSUS			
Consensus Estimate	0.53 A	0.47 E	0.50 E
Difference from Consensus		8.5%	5.4%

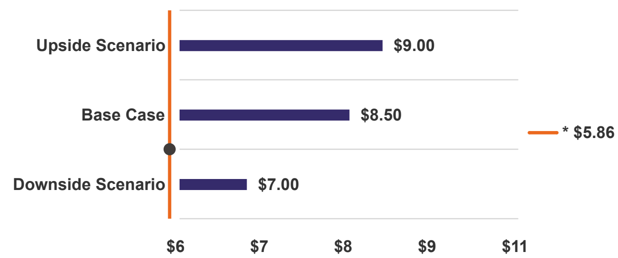
VALUATION			
P/E	11.1x	11.4x	11.1x
EV/Revenue	4.8x	4.5x	4.8x
EV/EBIT	27.8x	20.4x	19.7x
EV/EBITDA	10.5x	9.6x	12.0x

Consensus Estimate: Consensus EPS Estimate; Source: FactSet
Source: Company Data, Wells Fargo Securities estimates, and Factset.
NA = Not Available, NE = No Estimate

Investment Thesis

Our Overweight rating reflects our view that the current share price understates the value of AQN's assets. We believe the non-regulated renewable assets could fetch ~$2.4B in proceeds, which can be used to recapitalize the company. Post the transition, AQN will be a fully regulated utility with a path toward 5-6% annual EPS growth.

Risk vs. Reward – Upside/Downside Price Target Scenarios



**As of 06/28/24*
Source: Wells Fargo Securities, LLC estimates and Factset.

Base Case | $8.50
Our PT of $8.50 is predicated on a P/E analysis. We apply a P/E multiple of 16x to our 25E EPS of $0.53. The multiple is in line with the '24 U.S. Regulated Electric peer group median and compares to the Canadian utility peer group median of 16.3x (small sample size). We apply the '24 median to our 25E due to the forward-looking nature of our PT.

Upside Scenario | $9.00
Our upside PT of $9 is premised on a P/E multiple of 17x applied to our 25E EPS of $0.53.

Downside Scenario | $7.00
Our downside PT of $6 is premised on a P/E multiple of ~13x a low case 25E EPS of $0.47 (reflects lower earned ROEs for the regulated utilities). The assumed P/E multiple of 13x represents a ~15% discount to regulated peers.

Upcoming Catalysts

Ongoing sale process of the contracted renewable operations.

Approvals for AY sale process.

Company Description

Headquartered in Oakville, Ontario, Algonquin Power & Utilities is a diversified energy company with operations in the U.S. and Canada. AQN has two distinct business groups—Utilities & Power, under which the company provides regulated utility services and develops and owns contracted renewables and electric and natural gas transmission-related infrastructure.

Investment Thesis, Valuation and Risks

Algonquin Power & Utilities Corp. (AQN)

Investment Thesis

Our Overweight rating reflects our view that the current share price understates the value of AQN's assets. We believe the non-regulated renewable assets could fetch ~$2.4B in proceeds, which can be used to recapitalize the company. Post the transition, AQN will be a fully regulated utility with a path toward 5-6% annual EPS growth.

Target Price Valuation for AQN: $8.50 from NC

Our PT of $8.50 is predicated on a P/E analysis. We apply a P/E multiple of 16x to our 25E EPS of $0.53. The multiple is in line with the '24 U.S. Regulated Electric peer group median and compares to the Canadian utility peer group median of 16.3x (small sample size). We apply the '24 median to our 25E due to the forward-looking nature of our PT.

Risks to Our Price Target and Rating for AQN

Key risks to our price target: (1) the strategic review does not result in a sale of the contracted renewables franchise and/or projected sales proceeds are materially below our estimate, (2) pro forma EPS power is not sufficient to support the annual dividend rate, and (3) regulatory risks associated with AQN's core regulated utility operations (adverse rate case outcomes).

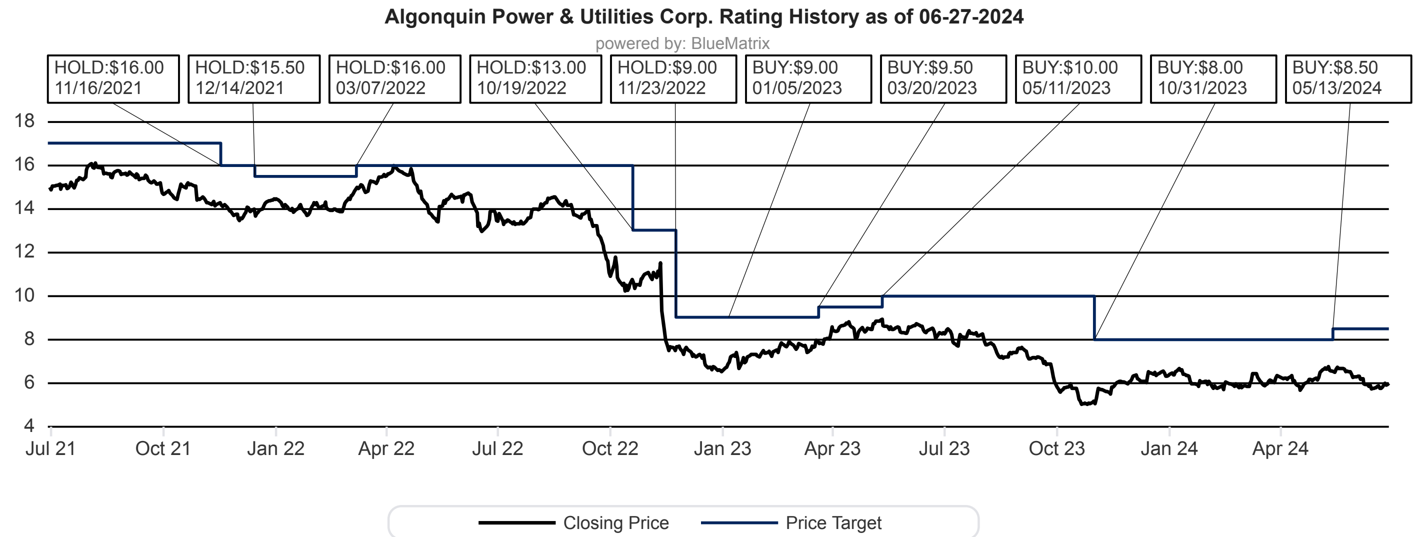
Required Disclosures

I, Neil Kalton, certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and

2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

Additional Information Available Upon Request



Initiation (I); Drop Coverage (D); Overweight (BUY); Equal Weight (HOLD); Underweight (SELL); Suspended (SR); Not Rated (NR); No Estimate (NE)

Wells Fargo Securities, LLC, or its affiliates received compensation for investment banking services from Algonquin Power & Utilities Corp. in the past 12 months.

Wells Fargo Securities, LLC, or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of Algonquin Power & Utilities Corp..

Wells Fargo Securities, LLC, maintains a market in the common stock of Algonquin Power & Utilities Corp..

Wells Fargo Securities, LLC, or its affiliates, managed or co-managed a public (or 144a) offering of securities for Algonquin Power & Utilities Corp. within the past 12 months.

Wells Fargo Securities, LLC, or any of its affiliates, intends to seek or expects to receive compensation for investment banking services from Algonquin Power & Utilities Corp. in the next three months.

Algonquin Power & Utilities Corp. currently is, or during the 12 month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC, provided investment banking services to Algonquin Power & Utilities Corp..

Wells Fargo Securities, LLC, or its affiliates received compensation for investment banking services from an affiliate of Algonquin Power & Utilities Corp. in the past 12 months.

STOCK RATING

OW=Overweight: Total return on stock expected to be 10%+ over the next 12 months. (BUY)

EW=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. (HOLD)

UW=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. (SELL)

NR=Not Rated: The rating and price target has been removed due to lack of fundamental basis to support the recommendation or due to legal, regulatory or company policy considerations.

As of June 30, 2024
49.9% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight. (BUY)
41.6% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight. (HOLD)
8.6% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight. (SELL)
Wells Fargo Securities, LLC has provided investment banking services for 37.5% of its Equity Research Overweight-rated companies. (BUY)
Wells Fargo Securities, LLC has provided investment banking services for 39.1% of its Equity Research Equal Weight-rated companies. (HOLD)
Wells Fargo Securities, LLC has provided investment banking services for 33.8% of its Equity Research Underweight-rated companies. (SELL)

Important Disclosure for U.S. Clients

This report was prepared by Wells Fargo Securities Global Research Department ("WFS Research") personnel associated with Wells Fargo Securities, LLC ("Wells Fargo Securities").

FINRA regulation requires member firms to assign ratings to one of three rating categories: Buy, Hold and Sell. In accordance with FINRA regulation and solely to satisfy those disclosure requirements in the ratings distribution table and ratings history chart contained in these Required Disclosures, our rating of Overweight corresponds to a Buy rating; Equal Weight corresponds to a Hold rating; and Underweight corresponds to a Sell rating.

WFS Research may, from time to time, provide clients with short-term trading views in its research reports regarding subject companies on which Wells Fargo Securities currently has equity research coverage. A short-term trading view offers a view on how the market price of a subject company's common equity may trend in absolute terms during the 30 days following the date of the short-term trading view. A short-term trading view on a subject company's common equity does not impact our fundamental investment rating or price target for that company, which reflect our view of how the subject company's common equity may perform over a one-year period. A short-term trading view may reach a different conclusion than the firm's fundamental investment rating and price target for a subject company and, therefore, short-term trading views could result in short-term price movements that are contrary to our fundamental investment rating and price target. Short-term trading views are not ratings and the firm does not intend, nor undertakes any obligation, to maintain, update or close out short-term trading views. Short-term trading views may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any short-term trading views discussed in WFS Research reports.

Important Disclosure for International Clients

United Kingdom – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a UK incorporated investment firm authorised and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorised person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research.

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC and Wells Fargo Securities International Limited are exempt from the requirements to hold an Australian financial services license in respect of the financial services they provide to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under the laws of the United States and Wells Fargo Securities International Limited is regulated under laws of the United Kingdom. All such laws differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC or Wells Fargo Securities International Limited in the course of providing the financial services will be prepared in accordance with the laws of the United States or United Kingdom and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Canadian Investment Regulatory Organization (CIRO) and, Member – Canadian Investor Protection Fund (CIPF). Wells Fargo Securities, LLC's research analysts may participate in company events such as site visits but are generally prohibited from accepting payment or reimbursement by the subject companies for associated expenses unless pre-authorized by members of Research Management.

China – Strictly Private and Confidential. For the sole use of the recipient only. Not to be copied or redistributed within the People's Republic of China.

Brazil - This report was not created for distribution to investors resident in Brazil or to the Brazilian public in general. Wells Fargo Securities, LLC is a broker-dealer registered in United States of America with and regulated by the U.S. Securities and Exchange Commission. Wells Fargo Securities, LLC is not registered in Brazil and its products, including this report and the securities mentioned in this report, have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets, and, as a result, have not been and will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). The offer of Wells Fargo Securities, LLC's products, including this report and any securities mentioned in this report, is intended only for residents in the countries in which Wells Fargo Securities, LLC is authorized to operate.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in the report. This report, including any ratings it contains, does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should seek professional advice, including tax advice, to determine whether any advice or recommendation in the attached research report is suitable for their particular circumstances. The information in this report is provided as of the date of the report and has been obtained or derived from sources believed by Wells Fargo Securities Global Research Department ("WFS Research"), to be reliable, but WFS Research does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of WFS Research, at the time that the report was published, and are subject to change without notice. Certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by third parties (collectively, "Third Party Content"). Third Party Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Third Party Content included in this report for purposes other than fair use requires permission from the copyright owner. Any external website links included in this publication are not maintained, controlled or operated by Wells Fargo Securities. Wells Fargo Securities does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of Wells Fargo Securities. Please review the applicable privacy and security policies and terms and conditions for the website you are visiting. All Wells Fargo Securities research reports published by WFS Research are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Clients may also receive our research via third party vendors. Not all research content is redistributed to our clients or available to third-party aggregators, nor is WFS Research responsible for the redistribution of our research by third party aggregators. Equity Strategists focus on investment themes across the equity markets and sectors. Any discussion within an Equity Strategy report of specific securities is not intended to provide a fundamental analysis of any individual company described therein. The information provided in Equity Strategy reports is subject to change without notice, and investors should not expect continuing information or additional reports relating to any security described therein. Wells Fargo Securities' Signature Picks is a product of the Equity Strategy team and represents a portfolio of stocks selected from the Equity Research Department's universe of Overweight rated stocks. Stocks with this designation are selected by the Signature Picks Committee based on factors such as volatility, risks, market cap and liquidity and may not represent the fundamental analysts' top-rated stock in their respective coverage universe. For research or other data available on a particular security, please contact your sales representative or go to http://research.wellsfargosecurities.com.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE