Which Utility Belongs in Your Portfolio?

Description

If you're looking for stocks that will protect your money and pay reliable dividends, look no further than Canada's utilities. It's an industry with enormous barriers to entry, regulated pricing, and very consistent demand. After all, even if the economy slows down, that doesn't mean we'll turn off the lights.

As a result, most utilities are able to pay consistent, reliable dividends. But which one would make the best addition to your portfolio? Below we look at three alternatives.

Fortis

Fortis (TSX: FTS) is Canada's largest investor-owned utility, and also one of the most reliable. As of the end of last year, 90% of its assets were in regulated industries, and an additional 5% of assets have the benefit of long-term contract pricing. As a result, the company is able to maintain a strong credit rating (A- from S&P) despite having a fairly leveraged balance sheet (greater than 100% debt/equity ratio).

You're probably not going to hit any home runs with a company like Fortis, but the risk/reward trade-off is in your favour. The dividend currently yields 4.0%, not bad considering it has been raised each of the last 41 years.

TransAlta

The past few years have not been very kind to **TransAlta** (TSX: TA)(NYSE: TAC) or its shareholders, with low prices, higher-than-expected costs, operational problems, and even allegations of price fixing. When reporting earnings for 2013, the company reported a net loss and cut its dividend by 38%. Over the past three years, its shares have returned -9% per year.

Has that created an opportunity to pick up the shares at a discount? At first glance, it may seem so; even after the dividend cut, the shares yield 5.5%. But there are certainly risks.

For one, profitability continues to be a concern, despite recent improvements. For the first three months of 2014, earnings per share amounted to $0.18, equal to the company's quarterly dividend. The company's balance sheet is also scarier than Fortis's with over $4 billion in debt.

All in all, this is a risk probably not worth taking, especially if you're looking for a safe pick.

Just Energy

If any company can make TransAlta look like a rock-solid investment, it's natural gas contract marketer **Just Energy** (TSX: JE)(NYSE: JE). Just Energy is featured in another recent Motley Fool article, one that identifies three stocks trading at 52-week lows. There are plenty of reasons why the company is on that list.

Just Energy makes its money from selling long-term gas contracts to consumers, typically by going door to door. It has been accused of deceptive marketing practices, and of offering bad deals to its customers. Accounting experts have targeted Just Energy for the way it reports its numbers. The company is unprofitable, and last year reported a dividend cut in April. Numerous analysts have said the current dividend is unlikely to be sustained.

That being said, the company's dividend yields a staggering 13.8%. Don't let that tempt you.

So what should you do?

If you're looking at stocks in the utility sector, it should be because you're looking for safety. This means that your best bet is a consistent performer like Fortis.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:FTS (Fortis Inc.)
3. TSX:TA (TransAlta Corporation)

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