A Stock With 42 Straight Years of Dividend Hikes

Description

MP900387760 Image not found or type unknown Almost to a fault, equity investors are relentlessly focused on dividend yield.

It has reached a point now where investors will skip over a wonderful business just because it doesn't sport an eye-catching payout.

Case in point: **Canadian Utilities** (TSX: CU).

Today, the yield on western Canada's largest utility is only a measly 2.7%. Yet investors who give this stock a pass based on yield alone are missing out on some phenomenal dividend increases.

Last January, Canadian Utilities hiked its quarterly dividend 12.5% to $0.27 per share — one of the largest increases in the company's history. Barring some sort of global catastrophe, the company will raise its dividend again next year, marking the 42nd consecutive increase since 1972.

Over that time, the dividend has grown more than 16-fold. If you had bought and held the stock over that time, the annualized yield on your original investment would be more than 35% today. More increases are almost certainly on the way as the company's sales and earnings continue to climb.

Fuelled by Alberta's growing economy, Canadian Utilities regulated gas and electric utilities and pipelines have nearly doubled their regulated asset base over the past three years. The company is investing more than $5 billion in new electric transmission infrastructure projects in Alberta to 2015. The company has also been expanding into Australia and northern Canada and is looking to grow in the green energy space.

More importantly, this expansion is into regulated businesses — assets in which the utility is allowed to earn a specific rate of return as set by the government. Today, regulated operations account for about 60% of the company's earnings, and this is expected to grow to 70% by 2015. This means that the company's risk profile is actually declining every year.

Finally, this dividend should be very safe given that the payout ratio is less than 40% of the company's estimated free cash flow in 2014. If everything plays out as planned, Canadian Utilities should be able to increase its dividends faster than its earnings growth rate for the foreseeable future. A low payout ratio also gives the company plenty of cushion if industry conditions take a turn for the worse.

Of course, no stock is a sure thing. Because of their steady cash flows, utility stocks trade much like bonds, which fall when interest rates rise, and because regulated returns aren't adjusted immediately, rising interest rates could impact profitability.

Risks aside, the company has been able to grow sales, earnings per share, and dividends in good times and bad. It's this type of long-term consistency that sets Canadian Utilities apart from its competitors.

If you're looking for a fat yield today, then I would recommend looking elsewhere. But if you have patience, this stock is an excellent addition to any income portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

Category

1. Investing

Date
2025/08/27
Date Created
2014/06/13
Author
rbaillieul