Canadian Utilities Limited: 42 Consecutive Dividend Hikes… and Counting

Description

Canadian Utilities Limited (TSX: CU) CFO Brian Bale's opening remarks were telling. At the company's annual shareholders' meeting in May, he started his speech with a reference to the firm's dividend.

"Canadian Utilities has a great record of generating reliable and growing earnings," he explained. "This ongoing financial strength has allowed the company to consistently increase its dividend every year for more than 40 years."

Don't expect him to stop now.

Since starting its dividend growth campaign over four decades ago, the firm has been steadfast in its commitment to rewarding investors. Think of all the ups and downs that happened over that time. Yet for this company it hardly mattered.

While you might think of utilities as a mature business, small dividend hikes compounded over time can really add up. Since 1972, the firm's distribution has grown more than 16-fold. If you had bought and held the stock over that time, the yield on your original investment would be over 35% today.

The past decade has been especially rewarding for investors. Over that time the company's distribution has soared more than 100%. Today, Canadian Utilities pays a quarterly dividend of $0.27 per share, which comes out to an annualized yield of 2.8%.

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Source: Canadian Utilities investor presentation.

How has Canadian Utilities been able to pull this off? It's a natural monopoly. Another company can't simply come along and build a competing utility business. This has allowed the firm to crank out big returns for shareholders quarter after quarter.

And you can expect that dividend will keep growing in the years ahead. To power Alberta's whitehot economy the firm is investing more than $5 billion in new transmission infrastructure. The company has also been expanding into fast growing markets like Australia and northern Canada.

Even better, 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 declining.

Is Canadian Utilities a sure thing? Hardly. Falling regulated rate of returns and a weak mergers and acquisition market could all take a toll on the stock.

Rising interest rates are another threat. Because you can time your watch to the firm's cash flows, this stock almost resembles a bond. That means it could be hammered more than other stocks if rates begin to rise.

That said, Canadian Utilities offers a tempting combination of yield, growth, and safety. That's a recipe for big returns over the long haul.

CATEGORY

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1. TSX:CU (Canadian Utilities Limited)

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Date
2025/08/27
Date Created
2014/10/30
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