Dividend Investors: The Case to Buy Canadian Utilities Limited

Description

The best part about a company like **Canadian Utilities Limited** (TSX:CU) is its consistency.

No matter what the economy is doing, people always need to keep the lights on. This business is about as recession-proof as it gets.

For shareholders, this has translated into one of the market's most consistent dividends. Since the Calgary-based utility declared its first cash payment in 1972, it has raised its distribution 43 consecutive times.

This was through wars, recessions, currency crises, and even bell bottom jeans. It's at the point now where any Joe Schmo can see these dividend hikes coming — including me.

Last December, I was 100% confident that Canadian Utilities would hike its payout again "unless there [was] another financial crisis over the holidays."

Sure enough, one month later, the company boosted its quarterly payment 10% to 29.5 cents per share. Based on Monday's closing price of $41.07, the stock now yields a tidy 2.9%.

If you don't buy this stock now, you'll kick yourself later

Sure, this meager yield might not whet the appetite of some income investors. But Canadian Utilities is the perfect example of what I look for in a dividend stock.

First off, the business has almost no competition. It's not like another company can simply come along and build a competing power plant and transmission network. The cost to build out your own utility operation would run in the tens of billions of dollars.

Even if you could come up with the money, it just doesn't make sense to have two firms competing in the same market. They would just divide up the business. This natural monopoly allows Canadian Utilities to crank out big returns for shareholders year after year.

Better yet, the company is still growing. To power Alberta's economy, Canadian Utilities has been putting huge amounts of capital back into its business. Over the next few years, management expects to spend over $5 billion building out its operations in the province.

In other words, Canadian Utilities isn't a growth stock, and it's not an income stock. It's both.

Of course, to quote the old finance cliché, past performance isn't necessarily indicative of future returns. However, the formula seems to be working for shareholders.

- Over the past 10 years, the stock price has appreciated 171%.

- Including reinvested dividends, shareholders have earned a scorching 13.6% annual return, trouncing the S&P/TSX Composite Index during the same period.
- If you had bought and held the stock over that time and reinvested all of your dividends, *the yield on your original investment would be 10.4% today*.

Now I wouldn't necessarily expect such oversized returns to continue. After all, lower oil prices are taking a toll on Alberta's economy. Higher interest rates could also crimp the stock.

That said, Canadian Utilities's revenues, earnings, and dividends are expected to continue growing. According to analysts' estimates compiled by Reuters, the company is on track to increase earnings per share (and by rough extension distributions) at an 8% annual clip over the next five years.

If that's right, the stock will deliver $0.43 per share in quarterly dividends by 2020 — nearly 50% higher than its current payout.

Here's one dividend stock to buy and hold forever

Owning a boring stock like Canadian Utilities won't impress your friends at the next cocktail party. If you want white-knuckle excitement, take your money elsewhere. But if you're looking for a consistent, recession-proof dividend stock, then you'll like this company just fine.

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1. TSX:CU (Canadian Utilities Limited)

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