

ATCO Ltd.: 3 Reasons Why You Should Own This Dividend Champion

Description

When discussing Canadian utility stocks, **Fortis Inc.** ([TSX:FTS](#)) tends to get all the attention.

One look at the company's asset base and it's easy to see why. It owns power generation facilities across Canada, the U.S., and the Caribbean, as well as owning natural gas pipelines in B.C. and Arizona. Finally, it has a collection of commercial real estate in Atlantic Canada, totaling some 2.8 million square feet, as well as a collection of hotels spanning across eight provinces.

The most impressive part of Fortis might be the company's ability to consistently raise its dividend. The company has not only never missed a dividend since 1972, but it has raised its annual payout in each of those years. That's a dividend growth streak unmatched by any other publicly traded Canadian company.

The only problem with Fortis is it's expensive. Shares currently trade at 29 times the company's trailing earnings, and is trading at nearly 20 times projected 2015 earnings. That's rich, especially for a slow-growth utility.

So I went looking for a similar company with the same type of dividend history with a much lower valuation. I think I've found it with **ATCO Ltd.** ([TSX:ACO.X](#)), an incredibly diversified utility company.

Great operations

ATCO, through its 53% ownership of **Canadian Utilities Limited** ([TSX:CU](#)), is the owner of power plants, electric transmission infrastructure, and gas pipelines. It also owns 75% of a small division that manufactures temporary structures used on things like construction and oil and gas sites, with Canadian Utilities owning the other 25%.

Operations are mainly concentrated in Alberta, but the company also has significant assets in Australia. The structures division has operations around the world, and accounts for approximately 25% of the company's earnings. The structures are heavily used by the oil and gas industry, and thus the market for them is looking to be soft in 2015.

Still, it's tough to understate just how much of the Albertan natural gas market ATCO owns. If you live in Alberta and have heating in your house, it's very likely that ATCO supplies it. That's a great business to be in.

Solid valuation

If ATCO is just a holding company with a division that makes temporary buildings, why own it? Why not just buy Canadian Utilities and be done with it?

One simple reason—valuation.

ATCO is currently trading at just 13.8 times earnings, and is trading at 13.7 times expected 2015 earnings. Essentially, analysts are expecting the utilities business to grow modestly, while the structures business will be weak. The net effect is the two will cancel themselves out.

Meanwhile, Canadian Utilities trades at 17.3 times current earnings, and trades at 17.2 times expected 2015 earnings. The market predicts it will have the same anemic growth rate as ATCO, which makes sense considering how interconnected the two companies are.

If that's the case, ATCO is a screaming buy compared to its subsidiary. Investors can buy ATCO at a 20% discount to Canadian Utilities, and a 35% discount to Fortis's projected 2015 multiple.

Dividend history

Although ATCO only has a current yield of 2.1%, it has a stellar dividend growth history that's almost comparable to Fortis's, but it hardly ever gets brought up.

In 1993, the company paid out just \$0.06 annually in dividends adjusted for splits. After recently announcing another dividend increase for 2015, the current payout is now \$1 per share annually. That's a compound annual growth rate of 12.5% over the course of more than two decades.

The number of Canadian companies with that kind of dividend growth are few and far between. Canadian banks all paused dividend growth during the Great Recession, and even the telecoms have had issues in that time. ATCO's dividend history truly makes it an elite company.

This great company doesn't get the attention its peers attract, which might be a good thing. If ATCO can trade at the level of its peers, it has a potential upside of at least 25%. That, combined with the fantastic dividend history, make this stock a buy.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ACO.X (ATCO Ltd.)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:FTS (Fortis Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/17

Date Created

2015/02/25

Author
nelsonpsmith

default watermark

default watermark