



How to Pay Your Utility Bills With Utility Dividends

Description

No matter if the economy is expanding, contracting, or has zero growth, people still need to pay their utility bills. That's why utilities are among the safest companies to invest in for income.

The top five holdings in the **iShares S&P/TSX Capped Utilities Index Fund** are **Fortis Inc.** ([TSX:FTS](#)), **Emera Inc.** ([TSX:EMA](#)), **Canadian Utilities Limited** ([TSX:CU](#)), **Brookfield Renewable Energy Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)), and **ATCO Ltd.** ([TSX:ACO.X](#)).

Method 1: Buy the same dollar amounts in each utility

Let's say it costs you \$150 per month, or \$1,800 per year, to pay for your electricity, heating, gas, and water. One strategy to get the utilities to pay your bills is to invest the same dollar amounts in each company.

The five companies pay an average yield of 3.62%, indicating that one must invest roughly \$9,950 in each utility to get enough dividends to pay the utility bills. This is a total investment of \$49,750. That's a lot of money up front.

Method 2: Buy high-yielding utilities

Ok, so you noticed the utilities index fund pays out a yield of 3.4% and decided to eliminate the businesses that are yielding less than that. That leaves Fortis, Emera, and Brookfield Renewable Energy in the mix.

They pay an average yield of 4.27%. Investing the same dollar amounts in each still requires roughly \$42,150, or about \$14,000 per position.

Method 3: Average in to your positions

No matter if you use the first or second method, it still requires a big sum of money up front. Perhaps the better strategy is to dollar-cost average in to your holdings instead of buying huge lump sums of \$14,000 or \$9,950. Besides, we can't determine whether the market will go up or down, so buying set

amounts in high-quality utilities periodically works as a passive strategy. For example, you can buy \$1,000 in your chosen utilities every year.

Method 4: Account for valuation to make the best use of every invested dollar

To make the best use of every invested dollar, it's essential to account for valuations. That is, you don't want to overpay for any company. Let's look at those five companies again, starting with Fortis.

Fortis' historical normal price-to-earnings ratio [P/E] in the past 10 years is roughly 20. Today it trades at a multiple of 20.9, about \$39 per share, while it dipped to a P/E of 14 during the financial crisis in 2009.

In the last decade Emera's normal P/E is 17.6 and it trades at a multiple of 18.7 today, about \$40.8. During the financial crisis period in particular, it traded around the P/E of 14 and 15.

For Canadian Utilities, its 10-year normal P/E is 16.7, and it trades at a multiple of 17.3 today at \$37.85. In 2009 it went down to a P/E of 11. That's when the utility was on sale.

For Brookfield Renewable, it may be more accurate to use the price-to-cash-flow ratio (P/CFL) for its valuation analysis. Its 10-year normal P/CFL is 12.3, while it trades at a multiple of 14 today at \$38.6. In 2009 it traded at the cheap valuation with a multiple of nine!

ATCO's normal P/E is 12.4, and it trades at a multiple of 14.1 today, about \$44.5. In 2009 it once dipped below a multiple of eight!

Conclusion

The utilities mentioned offer a reliable income to pay for your utility bills. However, now is probably not the best time to buy them. At the same time, we cannot know when events, such as the financial crisis, will occur. We just know that when it does, businesses will be on sale, at which time we can pick the highest quality ones to add.

Instead of letting macro factors decide our investing behavior, it may make more sense to look at each individual company and shop for quality with price in mind. If I must pick from the list above, Fortis, Emera, and Canadian Utilities seem to be the best valued of the bunch.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:ACO.X (ATCO Ltd.)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

4. TSX:CU (Canadian Utilities Limited)
5. TSX:EMA (Emera Incorporated)
6. TSX:FTS (Fortis Inc.)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/17

Date Created

2015/05/04

Author

kayng

default watermark

default watermark