



2 Dividend-Paying Power Stocks to Buy Instead of Fortis Inc.

Description

As you may already be aware, **Fortis Inc.** ([TSX:FTS](#)) holds a record that many Canadian-listed companies are a little envious of. With its most recent dividend hike, the company has now gone 44 consecutive years with an annual dividend raise, which is the longest streak on the **TSX Composite**.

As impressive as the record is, it's the company's underlying fundamentals that have made it possible. Over the years, prudent management, smart acquisitions, and attention to costs have been the main contributors to the company's success. Being in an industry where it's relatively easy to pass on increases to customers helps as well, and so does delivering something deemed as a necessity. As much as Canadians complain about the price of power and gas, I think we'd rather pay than go without, especially in December.

But Fortis is an expensive stock. It currently trades at nearly 30 times earnings, and approximately 20 times 2015's estimated earnings. That's a little pricey, considering the landscape is filled with cheaper competitors. Let's take a closer look at a couple: **Brookfield Renewable Energy Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) and **ATCO Ltd.** ([TSX:ACO.X](#)).

Brookfield

The big thing to like about Brookfield Renewable Energy Partners is the type of assets it owns. Although it does have some assets in wind power generation, the vast majority of its nearly 7,000 megawatts of capacity comes from hydroelectric. Unlike with coal power, there's little doubt hydro is going anywhere, especially considering the environmental advantages.

Management is bullish on the future, predicting that both profits and dividends will grow between 5-9% annually through to 2019. Additionally, top brass predicts that total power generating capacity will rise by 2,000 megawatts in the long term, with 750 megawatts slated to come online by the end of the decade.

Upon first glance, Brookfield Renewable might scare off the average income investor. The company only reported earnings of \$0.25 per share in 2014, putting it at nearly 150 times earnings. But if you look at the funds-from-operations number—which strips out depreciation—the company earned more

than \$2.20 per share. That's easily enough to cover the dividend, which is currently \$1.65 annualized per share.

Another reason to like Brookfield over Fortis is the difference between the dividends. Brookfield's payout yields 5.5%, more than 50% higher than Fortis's 3.5% yield. Both companies have similar payout ratios as well, so I'd give the nod to Brookfield's dividend, at least in the short term.

ATCO

ATCO Ltd. is a holding company, primarily owning shares of **Canadian Utilities Ltd.** It also has a small division that builds temporary buildings. So, why not just buy the underlying company instead of ATCO?

There's one big reason: ATCO is a much cheaper stock.

Currently, ATCO trades at just 13 times earnings, which makes it perhaps the cheapest name in the sector, at least in Canada. Canadian Utilities is also cheap—trading at 16 times earnings—but that's still 30% more expensive than the parent company.

Analysts expect earnings to back up a bit in 2015, dropping the company down to nearly 15 times projected earnings. But that's still cheaper than most of its competitors, and investors also get the potential benefit of the temporary buildings division recovering, since the slowdown in the oil patch has really adversely affected that part of the business.

The only downfall with ATCO is the size of the yield. Shares currently yield a somewhat anemic 2.25%, and that's even with shares trading at a 52-week low, mostly due to the recent NDP victory in Alberta's election. But the company has increased dividends annually by an average of 12.5% since 1993, which I'm pretty sure most dividend-growth investors would be satisfied with.

While ATCO or Brookfield Renewable aren't as well known as Fortis, both companies offer compelling reasons to add them to your portfolio. Fortis is still the undisputed king, but there are a couple of pretty nice princes poised to take the crown.

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:FTS (Fortis Inc.)

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