How to Build a Second Income Source, Part 1: Food Retail and Utilities

Description

We work to sustain our lifestyle. That sails along fine as long as you continue to work. What happens if you suddenly lose your job? It could be due to a recession, or because your company simply doesn't need you anymore. Admit it. It has happened to someone you know. In the recent financial crisis the Canadian unemployment rate rose to over 8%.

We are responsible for our families and for ourselves in good times and bad. To better secure our financial future, we can start building a second income source today. The most efficient use of your dollars is to build a dividend-growth portfolio that will pay you a growing income no matter what the market does.

I save as much as I can from my day job to contribute to my dividend-growth portfolio. Here's how to start building your own.

Buy businesses that provide needed products or services

You can reflect on your expenses for the products and services that you pay for every week or month. Coincidentally, these are also businesses that are easy to understand. For me, necessities start with food and power.

Food translates to food retail

We all need to put food on the table. The most economical and healthy way is to buy groceries and cook at home. As a result, food retail is a defensive industry. So, it makes sense to own a supermarket or two. The top names in this space include **Loblaw Companies Limited** (TSX:L), **Alimentation Couche-Tard Inc.** (TSX:ATD.B), **Metro Inc.** (TSX:MRU), and **Empire Company Limited** (TSX:EMP.A).

Ticker	* Price	* Market Cap	* Yield	S&P Credit Rating	Debt to Capital
L	$64	26.3B	1.6%	BBB	43%
ATD.B	$46	26.2B	0.4%	BBB	31%

MRU	$35	8.8B	1.3%	BBB	26%
EMP.A	$88	8.3B	1.2%	Not Rated	31%

* At the close of May 8, 2015

Loblaw is the biggest of the bunch and also pays the highest yield. However, Empire and Metro have both increased dividends for an astounding record of 20 years in a row. Of the two, Metro has shown higher dividend growth.

Out of the four, Metro has the lowest debt levels and seems to have good growth potential with a not a bad yield. Too bad it is a little expensive right now, with its price more than two years ahead of earnings estimates.

The takeaway from food retail

The food retail group is pretty pricy, but the businesses should earn stable earnings and cash flow. Personally, I would go with Metro if it drops to $30-32 range, which would be closer to fair value.

Power translates to utilities

Utilities offer the most stable income because everyone needs to use electricity. Three of the top five Canadian companies with the longest streak of growing dividends are utilities.

Here's a comparison of the top three utilities:

Ticker	* Price	* Market Cap	* Yield	S&P Credit Rating	Debt to Capital	# Ye Hike
Fortis Inc.	$39	10.8B	3.5%	A-	51%	41
Canadian Utilities Limited	$37	9.8B	3.2%	A	55%	32
ATCO Ltd.	$44.5	5.1B	2.2%	A	52%	21

* Close of May 8, 2015

The takeaway from utilities

The utilities are fully valued as a group, although **ATCO Ltd.** (TSX:ACO.X) seems to be the cheapest of the bunch. So, patient investors can opt to wait for better entry points.

If you want stable income from utilities now, **Fortis Inc.** (TSX:FTS) has the highest yield and strongest dividend record. For better growth potential, go with **Canadian Utilities Limited** (TSX:CU). However, if you decide to go with ATCO, you might not want to buy Canadian Utilities because ATCO owns a little over 50% of the latter.

CATEGORY

1. Dividend Stocks

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TICKERS GLOBAL

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2. TSX:CU (Canadian Utilities Limited)
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Author
kayng