3 Alberta Utility Stocks Poised for a Rebound

Description

Alberta's energy sector has suffered this year as the oil price decline has taken its toll. But the future looks brighter for Alberta companies in the utilities sector. A technical review of the various sectors on the Toronto Stock Exchange suggests a rebound is in the cards for the utilities division, which is currently below its 50-day simple moving average, the sum of the closing price of the index in the past 50 trading days, divided by 50.

Three stocks in particular could benefit, says Peter Ashton of Recognia, a quantitative stock analysis provider: **Capital Power Corporation** (TSX:CPX), **Canadian Utilities Limited** (TSX:CU) and **TransAlta Renewables Inc.** (TSX:RNW).

Capital Power Corporation

Capital Power, an independent power generator based in Edmonton, ranks number one on Recognia's list, with a dividend yield of 5.4%, a low debt-to-equity ratio of 0.63 and a reasonable forward price-to-earnings ratio of 19.4. In April Capital reported net income in the first quarter of 2015 of $40 million and basic earnings per share of $0.41 per share, compared with $32 million, or $0.33 per share, in the comparable period of 2014.

"Despite cyclical price lows in Alberta's power market, Capital Power's financial results for the first quarter were in line with expectations," said Brian Vaasjo, president and CEO of Capital Power. The stock is down 6.5% year-to-date.

Canadian Utilities Limited

Canadian Utilities, also based in Alberta, has a dividend yield of more than 3% and has raised its distribution 43 times since its first cash payment in 1972. In April the utility announced first quarter 2015 adjusted earnings of $130 million compared with $186 million in 2014. The main driver of the decrease was a one-time earnings adjustment for the years 2013 and 2014 resulting from regulatory decisions. Earnings were also impacted by unfavourable market conditions in the company's energy businesses. The stock has lost 10% in the past three months.

TransAlta Renewables

TransAlta Renewables, the largest generator of wind power in Canada, has the highest dividend yield of the three at 7%. The company, created by TransAlta Corp. in 2013, operates more than 28 renewable energy installations in British Columbia, Alberta, Ontario, Quebec and New Brunswick.

Last month, TransAlta Renewables finalized a $1.78 billion deal to invest in TransAlta's Australian power generation and gas pipeline portfolio and fund its South Hedland power project. TransAlta Renewables expects the deal will increase cash for available distribution by approximately $127 million once the South Hedland project is operating. At the same time, the company announced a 9% increase in its dividend. The stock has been on a roll of late, gaining 8% this year.

What's attractive about these stocks is their simplicity and consistency. Everyone needs power and that need will ultimately be reflected in the share price. So, even though Capital Power and Canadian Utilities have underperformed this year, it's likely their shares will rebound soon, making this trio of stocks a solid addition to any diversified portfolio.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

TICKERS GLOBAL

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dwatt