Power Up Your Dividend Portfolio With These Two Electric Utilities

Description

One of the most reliable means of achieving financial independence is dividend-growth investing, although it does require considerable patience and discipline. An important secret to successful dividend investing is to select those companies with solid dividend-payment histories and a string of regular dividend hikes.

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Typically, such companies have wide economic moats and produce goods or services that rarely, if ever, experience any significant change in demand. One industry that meets all of these criteria and more is the electric utilities industry.

Now what?

You see, not only does demand for electricity remain constant because it's an important component that powers our modern lives, but the electric utility industry has a wide multifaceted economic moat. This protects the competitive advantage of industry participants and, in tandem with the inelastic demand for electricity, almost guarantees earnings growth.

In turn, this allows those companies operating in the industry to reward loyal investors with regular dividend hikes. Two industry participants that stand out because of their dividend-payment histories are **Canadian Utilities Ltd.** (TSX:CU) and **Fortis Inc.** (TSX:FTS).

Both companies have hiked their dividend virtually every year since inception, giving investors 43 straight years of dividend growth. This is an impressive record that virtually no other Canadian company can match. While both have modest yields of 3% and 4%, respectively, their dividends have grown at an remarkable rate. Canadian Utilities dividend has a compound annual growth rate of 7% since inception, while Fortis' is 6%.

These rates of growth are far higher than the returns that other purportedly safer income-focused investments, such as government bonds or cash, have generated over the same period.

So, what is the secret that allows Canadian Utilities and Fortis to consistently grow their dividends?

The key attribute that allows this is the wide multifaceted economic moat that they both possess. This moat is created by a combination of steep regulatory barriers to entering the industry, coupled with the significant capital investment required to acquire and develop the necessary assets. These characteristics protect their competitive advantage, and along with the growing demand for electricity, will help to propel their earnings higher.

This can be seen from Fortis' first quarter 2015 results, where net earnings shot up an impressive 61% year over year. Canadian Utilities performance was not as impressive for that period. Its net earnings plunged by 19%, primarily because of planned maintenance outages and cost blowouts. This highlights that like any investment, even electric utilities, despite their defensive nature, are not risk free.

So what?

A growing population and an even greater dependence on modern electronics for business and entertainment can only drive higher demand for electricity. When this is coupled with Canadian Utilities and Fortis' high quality regulated electric assets and wide economic moats, earnings growth is virtually guaranteed. This will allow both companies to continue rewarding investors with regular dividend hikes, which makes them a core holding in any dividend-growth portfolio.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:FTS (Fortis Inc.)

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