

Should You Buy Fortis Inc. or Canadian Utilities Limited Today?

Description

Utilities are great investments for those who are looking for steady, stable returns while receiving a decent income that outpaces inflation. That's why they make excellent core holdings in any portfolio, specifically ones that are income-oriented.

Fortis Inc. ([TSX:FTS](#)) is priced at \$36 with a yield of 3.8%, while **Canadian Utilities Limited** ([TSX:CU](#)) is priced under \$36 with a 3.3% yield. Fortis has retreated 14% from its 52-week high of \$42, while Canadian Utilities has pulled back 16% from its 52-week high of \$43. Which should you buy today?

Fortis

Fortis is Canada's largest regulated distribution utility with 3.1 million retail natural gas and electricity customers. Fortis's services span nine jurisdictions, including Arizona, New York, British Columbia, Alberta, Newfoundland & Labrador, Ontario, Prince Edward Island, Grand Cayman, Turks, and Caicos.

Canadian Utilities

Canadian Utilities is one of the largest utilities in Canada. It owns regulated electric and gas distribution and transmission assets in Alberta with about 1.4 million retail distribution clients. Its \$17 billion of assets include 86,000 km of power lines, 63,000 km of pipelines, and 16 power plants. It has a power-generating capacity of 3,890 megawatts.

Comparing the two utilities

Yield: The higher the yield, the more income shareholders receive today. Fortis yields 3.8% at \$36 per share, while Canadian Utilities yields 3.3% at about \$35.60.

Dividend growth: Dividend growth encourages price appreciation of the security. From 2008 to 2014 Fortis's dividend increased by 28%, while Canadian Utilities's increased by a whopping 60%!

For the record, Fortis has increased dividends for 42 years in a row, while Canadian Utilities has hiked it for 43 years in a row.

Earnings per share (EPS) growth: A healthy dividend is supported by growing earnings. From 2008 to 2014 Fortis's EPS increased by a compounded annual growth rate (CAGR) of 2.2%. On the other hand, Canadian Utilities's EPS increased by a CAGR of 5.4% in the same period.

Payout ratio: The lower the payout ratio, the safer the yield. Fortis's payout ratio is about 85%, while Canadian Utilities's is about 47%.

Quality: Fortis has an S&P credit rating of A-, while Canadian Utilities has a rating of A.

Valuation: Fortis is awarded a premium multiple close to 19, while Canadian Utilities is trading at a

more reasonable multiple close to 17.

In conclusion

If you only have enough money to buy one, you could choose Canadian Utilities for higher growth, especially since Fortis is more expensive than Canadian Utilities based on valuations. However, if you need higher income today, you could buy Fortis.

Both are quality utilities paying out eligible dividends, so investors can buy and hold them in a non-registered account. If you have room in a TFSA, by all means, hold them there.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Date

2025/08/27

Date Created

2015/07/14

Author

kayng

default watermark

default watermark