Canadian Utilities Ltd.: a Dependable Dividend-Paying Defensive Hedge for Every Portfolio

Description

There are times it feels like the financial markets are awash with uncertainty, even more so with weak commodity prices, global macroeconomic instability, and geopolitical crises dominating the headlines. A crucial means of hedging against these risks is to invest in defensive dividend-growth stocks that are resilient to downturns in the economic cycle and have a history of regular, steadily growing dividend payments.

One Canadian company that possesses all of these characteristics and more is **Canadian Utilities Ltd.** (TSX:CU).

Let me explain why.

Now what?

Like all electric utilities, Canadian Utilities possesses a wide multifaceted economic moat that protects its competitive advantage. It not only operates in a highly regulated industry with steep barriers to entry, but the amount of capital that would need to be invested in order to replicate its business is almost prohibitive.

Then we come to the fact that it is a regulated electric utility, which means that a considerable portion of its earnings come from contracted power-purchase agreements. This means they provide essentially guaranteed revenues for a fixed period, protecting Canadian Utilities's future earnings.

Another of its strengths is that it provides investors with exposure to a range of markets because it possesses a geographically diversified portfolio of utilities, infrastructure, and logistics assets in Canada and Australia. These includes power generation, electricity transmission as well as natural gas distribution and storage businesses. Canadian Utilities has also branched out it into the underserviced utilities market in Mexico, where it has won the contract to design, build, and operate a natural gas pipeline.

We shouldn't forget that electricity is a key part of our modern society; it powers our lives and economic activity. This means that demand for electricity remains constant, despite changes in the economic cycle, and virtually guarantees Canadian Utilities earnings during economic downturns. It also means that as the population and business activity grows, the demand for electricity will rise, thereby driving its earnings higher.

These characteristics have allowed Canadian Utilities to not only steadily grow its earnings since commencing operations, but also its dividend. Impressively, it hiked its dividend for 44 straight years to now yield a handy and sustainable 3%.

It also appears well positioned to manage the headwinds the electric utilities industry is facing. Increasingly strict regulations over greenhouse emissions are set to have detrimental impact on coal-fired power generation. The recent rate cut by the Bank of Canada will act as tailwind, making borrowing costs even cheaper for what is a capital-intensive business.

So what?

Canadian Utilities stacks up as one of my preferred defensive dividend stocks with its history of dividend hikes nothing short of remarkable. It has made more consecutive dividend hikes than any other Canadian company that I know of, including regulated electric utility **Fortis Inc**.

It is also well positioned to benefit from its initiatives to expand its asset base and grow earnings. This because the company is not shy to seek out appropriate opportunities that give it exposure to markets outside of Canada, with its Mexican foray more than likely to enhance earnings over the long term.

Each of these factors will support Canadian Utilities's future earnings growth and dividend hikes that, in conjunction with its economic moat, make it a solid defensive hedge for any portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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