



Are All Utilities Recession-Proof?

Description

The Monday price action must have scared lots of investors, with the **Dow Jones Industrial Average** falling 1,000 points early in the morning. Generally, investors like utilities for their less-volatile nature in terms of price movement and earnings stability.

Utilities provide product and services that are necessities; they typically transmit and distribute electricity and natural gas to homes. But are all utilities recession-proof?

Here, recession-proof does not mean that the utility stock prices won't go down when the economy is doing badly. In fact, during a recession, it's hard to find any company whose stock price won't go down. Instead, recession-proof means that the utilities' earnings power continues to remain strong, so that they're able to continue their dividend payments and even raise them.

Let's take a look at some popular utilities to see if they're recession-proof.

The biggest utility

Let's start off with **Fortis Inc.** ([TSX:FTS](#)). It's one of the largest electric and gas utility in Canada. At about \$36 per share, it has a market capitalization of over \$10 billion. In the last recession, during the financial crisis, its earnings remained steady. In fact, its earnings declined by only 5% in 2009.

Before and after the recession, from 2007 to 2010, Fortis actually managed to increase dividends from \$0.82 to \$1.12 per share, indicating an annualized growth of 11%.

Another strong utility

At \$34, **Canadian Utilities Limited** ([TSX:CU](#)) has a market capitalization of over \$9 billion. In the last recession its earnings continued to grow. From 2007 to 2010, its earnings per share increased every year. During that period its annualized payout rose from \$0.62 to \$0.76 per share, indicating an annualized growth of 7%.

Another sturdy utility

At \$44.4, **Emera Inc.** ([TSX:EMA](#)) has a market capitalization of over 6.4 billion. In the last recession, its earnings continued to grow. From 2007 to 2010, its earnings per share increased every year. During that period its annualized payout rose from \$0.9 to \$1.16 per share, indicating an annualized growth of 8.8%.

A not so recession-proof utility

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) at about \$6.6, yields 10.8%. In the last recession its earnings per share declined 38% from 2008 to 2009. That's a big red flag compared with the other utilities we just reviewed.

To be fair, by the end of 2010 its earnings per share had almost recovered to the pre-recession levels. However, from then on its earnings have declined every single year (double-digit declines!) until 2014. This year's earnings per share is forecasted to decline at a double-digit rate as well.

In fact, because it was doing so poorly, it had to cut its dividend by 38% in 2014. So, long-term investors should stay away from TransAlta. I buy utilities expecting steadily growing earnings and dividends, not the kind of roller coaster ride and downhill earnings that TransAlta has shown.

In conclusion

Not all utilities are recession-proof. The first three companies, Fortis, Canadian Utilities, and Emera showed at least some resilience, but it didn't even take a recession to pull down TransAlta's business performance. The lesson here is to always look at the business behind the stock, and don't think everything should be fine because a company provides a needed product or service.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:EMA (Emera Incorporated)
4. TSX:FTS (Fortis Inc.)
5. TSX:TA (TransAlta Corporation)

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