The Number 1 Defensive Dividend-Paying Opportunity in a Volatile Market

Description

Recent market gyrations and growing uncertainty over China's economy underscore that now is the time for investors to hedge against further market volatility and economic uncertainty by boosting their exposure to defensive stocks. One of the best ways to hedge against economic risk and market volatility is to invest in non-cyclical stocks that pay regular, sustainable dividends.

Now, with Canada technically slipping into recession that has the Bank of Canada considering yet another rate cut, dividend-paying defensive stocks appears particularly attractive. They offer investors the ability to generate a regular income stream that offers a higher return than many other assets along with the ability for capital appreciation once the economic cycle improves.

In the current harsh environment, regulated electric utility **Canadian Utilities Ltd.** (TSX:CU) stands out.

Let me explain why.

Now what?

Like all electric utilities, its earnings are virtually guaranteed by the unchanging demand for electricity that powers our modern lives. It also possesses a wide economic moat because of the steep barriers to entry for the electric utilities industry and the high degree of regulation. This protects its competitive advantage and earnings growth.

Meanwhile, with Canada technically slipping into recession, there is an increasing likelihood that the Bank of Canada will cut rates yet again, making financing even cheaper. This is a particularly important tailwind for electric utilities because it is a capital-intensive business, where much of the investment in power plants and other operational assets is financed through debt.

Then you have Canadian Utilities's extraordinary history of dividend hikes. It has increased its annual dividend every year for the last 43 straight years. This incredible history of dividend hikes now gives Canadian Utilities a juicy dividend yield of just over 3%.

It has been able to generate such solid dividend growth because of the defensive or non-cyclical characteristics of its business that have earnings consistently growing over time. For the second quarter 2015, adjusted earnings grew by 16% year over year, while funds from operations shot up by 25%. This was despite the Canadian economy slowing and dipping into a recession.

Its ongoing earnings growth is also supported by the fact that it produces a significant proportion of its revenue from regulated sources.

When all of these factors are considered in conjunction with Canadian Utilities's portfolio of projects that are under development in Canada and Mexico, which will boost revenues on completion, I expect Canadian Utilities to continue hiking its dividend.

So what?

It is easy to see why Canadian Utilities should be in every portfolio. Not only does it offer a solid hedge against market volatility and further economic uncertainty, but it will continue to reward patient investors with its steadily growing and sustainable dividend. There are also a range of tailwinds, including lower interest rates that will help to drive improved earnings over the long term, causing its share price to appreciate in value.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

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