Why I Just Bought These Utilities

Description

Utilities are generally known for their stable earnings. That's why three of the top five dividend-growth companies in Canada are utilities. If you're looking for a good utility to add to your portfolio, which should you buy today?

History of growing dividends

When a company has increased its dividend for at least five years, it starts to pique my interest. That track record shows that the company is able to generate increasing earnings or stable cash flows to pay an increasing dividend.

Of course, the longer the history the better. Personally, I prefer companies that have increased dividends for at least seven years because that shows that they hiked payouts through the last recession.

ATCO for dividend growth

I bought **ATCO Ltd.** (TSX:ACO.X) at about $36 for a yield of 2.7%. It has increased its dividend for 21 consecutive years. ATCO has fallen over 4% since I bought it, but I'm not worried.

The diversified utility has a long history of operation. It was founded in 1947 in Alberta and has grown into a company with global assets of roughly $19 billion.

Although it only yields 2.9% today, in the last three years it increased the dividend at an amazing average rate of 14.7% per year. Believe it or not, a 2.9% yield is historically high for the utility. It is anticipated to increase the dividend in the first quarter of next year, too.

Brookfield Renewable for high, growing income

Another utility I like at these levels is **Brookfield Renewable Energy Partners LP** (TSX:BEP.UN)(NYSE:BEP). Thanks to the high U.S. dollar, it yields 6.9% at $32. It has 81% of assets in hydropower facilities and 17% in wind power.

The utility has tumbled likely because 20% of its assets are in Brazil, and the Brazilian real has fallen about 40% since the start of 2014 relative to the U.S. dollar. In the third quarter the foreign exchange rate reduced funds from operations by only 3.6%.

Further, Brookfield Renewable has 75% of assets in North America and 90% of cash flows are contracted. Adding that the utility targets a payout ratio of 60-70%, its distribution should remain safe.

The utility has increased its distribution for five consecutive years, and it forecasts to grow the distribution by 5-9% per year. The next increase is anticipated to come in the first quarter of the new year.

Are they good buys today?

If you have a long-term view in investing and you're looking to build a diversified income portfolio, these two utilities are quality stocks to consider today. ATCO has an S&P credit rating of A and debt/cap of 53%, while Brookfield Renewable has an S&P credit rating of BBB and debt/cap of 45%.

I believe both companies will deliver higher income in the coming years. However, ATCO is likely to deliver higher capital appreciation versus current income compared to Brookfield Renewable.

Foolish investors should also be aware that ATCO pays out eligible dividends, so its dividends are favourably taxed in a non-registered account. On the other hand, Brookfield Renewable pays out distributions that are unlike dividends, so holding it in an RRSP or TFSA account may be more appropriate.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:ACO.X (ATCO Ltd.)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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