A Weak Loonie Benefits These Dividend Stocks

Description

The Canadian market is primarily dominated by the financial, energy, and materials sectors. The latter two sectors have particularly performed poorly in the past year. Their performances have dragged down the performance of the **S&P/TSX Composite Index**.

The index has fallen over 9% in the past year. Comparatively, the American **S&P 500** has performed much better, rising 2% in the same period.

Investors may look at our market and wonder where to invest. Currently, it takes almost CAD$1.40 to exchange for US$1.00. Since the loonie has fallen so much, investors should consider investing in businesses that have U.S. operations because U.S. revenues can only boost business performance.

Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Fortis Inc.** (TSX:FTS) both have a meaningful percentage of operations in the United States, and they benefit from the stronger U.S. dollar.

Royal Bank

In the fiscal year of 2015, Royal Bank of Canada became the first Canadian company to earn over $10 billion in a year. No doubt, Royal Bank's U.S. operations helped achieve that. They contributed 19% of its revenue in the last fiscal year.

This year, Royal Bank increased the dividend by 5.3%, and its payout ratio is 46%. With a target payout ratio of 40-50%, the bank's dividend is safe and should continue to grow in the new year.

At $75, the shares aren't expensive. Based on its FY2015 earnings per share and its long-term normal multiple of 12.8, Royal Bank's fair value is estimated to be $85. So, Royal Bank shares are discounted by about 11%.

Fortis

Fortis is a leading North American utility. It primarily owns regulated assets. With 96% of regulated electric and gas assets, Fortis's earnings and cash flows are very stable.

What's more to like is that 43% of its regulated assets are in the United States. Last year Fortis bought Arizona-based UNS Energy for US$4.5 billion. UNS Energy now makes up 32% of Fortis's regulated assets.

Fortis has successfully integrated UNS Energy, which is now accretive to earnings per share. For the first nine months of 2015, cash flow from operations totaled $1.3 billion. This result is almost double the same period last year because of the UNS Energy acquisition.

As a result, Fortis hiked the dividends twice this year. It just increased its quarterly dividend by 10.3% to 37.5 cents per share in November.

Treat that as an early dividend hike for the new year because the quarterly dividend will remain at 37.5 cents per share in 2016. The utility targets annual dividend growth of 6% from 2017 to 2020.

At under $38, the shares are in the fair-value range. Its 4% yield is safe, given that Fortis has increased the dividend for 42 consecutive years, and it has a sustainable payout ratio of about 73%.

Conclusion

If you are worried about Canadian stocks underperforming, consider Royal Bank and Fortis, which have operations in the U.S. Their results are boosted by a stronger U.S. dollar. Their yields of about 4% are safe.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:FTS (Fortis Inc.)
3. TSX:RY (Royal Bank of Canada)

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