



You Just Missed a 10% Rally in Utilities

Description

Because utilities are generally viewed as slow-growing companies, some investors don't pay attention to them. But they should! It might surprise you that the following utilities have rallied 10% on average in less than two months because there was an industry dip in early December:

- **Fortis Inc.** ([TSX:FTS](#)) rallied 10%
- **Canadian Utilities Limited** ([TSX:CU](#)) rallied 17%
- **ATCO Ltd.** ([TSX:ACO.X](#)) rallied 11%
- **Brookfield Renewable Energy Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) rallied 15%
- **Brookfield Infrastructure Partners L.P** ([TSX:BIP.UN](#))([NYSE:BIP](#)) fell 4% (It's the odd one out.)

The December selloff brought the utilities down to more reasonable valuations. The selloff was a major factor in the utility rally. However, it's not the only factor.

Consistently growing dividends

Utilities are already worth praising because they have paid decades worth of dividends, but Fortis and Canadian Utilities have actually done better than that; they have both paid increasing dividends for 42 or more consecutive years. Their amazing records are followed by ATCO, which has increased its dividend for 22 consecutive years.

In the past five years Fortis increased its dividend by 5.3% per year on average, Canadian Utilities increased its dividend by 10.1% on average, and ATCO increased its dividend by 15% on average.

Brookfield Renewable and Brookfield Infrastructure have shorter dividend-growth streaks, but their above-industry-average yields make them worthy to be considered as new investments today. Brookfield Renewable and Brookfield Infrastructure have increased their dividends for six and eight consecutive years, respectively.

According to their usual dividend-growth schedules, both companies should increase their dividends by March. They pay out U.S. dollar-denominated distributions, and I used their distribution histories (listed on their websites) to make the following dividend-growth rate calculations. In the past four years

Brookfield Renewable increased its dividend by 5.3% per year on average, and Brookfield Infrastructure increased its dividend by 14.4% on average.

Which utility has the safest dividend and growth potential?

All five utilities pay dividends that are supported by either earnings or cash flows. Of the utilities with over two decades of dividend-growth history, ATCO has the safest dividend and highest dividend-growth potential. Using their estimated fiscal year 2016 earnings per share, Fortis's payout ratio is 69%, Canadian Utilities's is 60%, and ATCO's is 39%.

Using their estimated fiscal year 2016 funds from operations per share, Brookfield Renewable's payout ratio is 69% and Brookfield Infrastructure's payout ratio is 50%. As a result, although both companies target distribution growth of 5-9% annually, I expect Brookfield Renewable to grow its distribution at a slower rate than Brookfield Infrastructure.

With a lower payout ratio, Brookfield Infrastructure's dividend is safer than Brookfield Renewables's. We will find out if this assumption is correct when their distributions are raised in the next two months.

Conclusion: which should you buy today?

ATCO owns 53% of Canadian Utilities, so it may not make sense for investors to buy both. Besides, ATCO's dividend should be safer than Canadian Utilities's, and ATCO's dividend-growth potential should be higher.

Brookfield Infrastructure didn't really follow its peers in the rally. In fact, it's down 4% since early December. Given its safer distribution compared with Brookfield Renewable, \$49 is a fair price to pay for Brookfield Infrastructure's units, but any dips would create more attractive entry points.

At \$37.60, ATCO yields 3%. At about \$49, Brookfield Infrastructure yields 5.6% based on a foreign exchange of US\$1 to CAD\$1.30.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
3. TSX:ACO.X (ATCO Ltd.)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
5. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
6. TSX:CU (Canadian Utilities Limited)
7. TSX:FTS (Fortis Inc.)

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Date

2025/08/17

Date Created

2016/02/01

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