New Investors: Start With Simple Dividend Stocks

Description

The world of investing is complex, and the stock prices going up and down on trading days is mesmerizing. New investors, who are often at a loss on which stocks to invest in, should start with the basics: simple dividend stocks.

Simple businesses

No, not all dividend stocks are simple. When I say simple dividend stocks, I mean the businesses that are behind each stock. In my mind, simple businesses are traditional businesses that are profitable no matter how the economy is doing. Their products and services are used in good times and bad. Utilities are such businesses.

New investors should cheer for simple businesses that share profits with shareholders in the form of dividends. In fact, utilities such as **Fortis Inc.** (TSX:FTS) and **Canadian Utilities Limited** (TSX:CU) have paid the longest streaks of annual dividend increases in Canada. Both have increased dividends for over 40 years!

Fortis

Fortis is a leading North American electric and gas utility. It is primarily a regulated utility that serves two million electric customers and 1.2 million gas customers.

Fortis has 96% of its assets regulated. They primarily consist of UNS Energy in Arizona (32%), FortisBC in British Columbia (30%), FortisAlberta in Alberta (14%), and Central Hudson in the New York State (11%).

On February 9, Fortis announced the acquisition of **ITC Holdings Corp.** On the day, Fortis's shares fell as much as 12% on the news. The ITC and Fortis headquarters and their management teams will remain unchanged. The acquisition helps Fortis diversify its business; after the transaction, ITC will represent about 39% of Fortis's operating earnings and 27% of its regulated assets.

The transaction won't affect Fortis's previous annual dividend-growth target of 6% on average through

2020. The transaction is expected to be completed by late 2016, although it's still subject to regulatory approvals from nine parties.

Fortis trades at $37.60 and yields 4%. With a payout ratio of under 70% based on its estimated 2016 fiscal year earnings, Fortis should continue its streak of dividend growth.

Canadian Utilities

Canadian Utilities has the following business segments: pipelines and liquids, electricity, and retail energy. Specifically, at the end of the third quarter, the utility had 86,000 km of power lines, 63,200 km of pipelines, 15 power plants, more than 3,800 megawatts of power-generating capacity, more than 1,700 million cubic feet per day of natural gas-processing capacity, and over 40 petajoules of natural gas storage capacity.

In the past five years Canadian Utilities has increased its dividend at an average rate of 9.3%. This month it just hiked its dividend by 10.2%, equating an annual payout of $1.30 per share.

At $34, Canadian Utilities yields 3.8%. With a payout ratio of under 62% based on its estimated 2016 fiscal year earnings, Canadian Utilities should continue its streak of dividend growth.

Conclusion

I believe Fortis and Canadian Utilities are the kinds of simple businesses that will deliver long-term returns for shareholders. The utilities generate stable earnings and cash flows that allow them to continue increasing their dividends.

Since we don't see yields of, say, 10% for these stocks, their share prices can only go up in the long term as their payouts increase. Even during the last recession Fortis's dividend yield only went as high as 4.5% and Canadian Utilities's was as high as 3.9%.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:FTS (Fortis Inc.)

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