



## Canadian Utilities Limited: Is it a Good Investment Today?

### Description

**Canadian Utilities Limited** ([TSX:CU](#)) reported earnings on February 25. Shares fell 3.1% on the day. Its 2015 adjusted earnings were 16% lower than 2014's. On a per-share basis, they were 17% lower. Additionally, Canadian Utilities's revenues declined by 9.3% year over year. Yet the utility is the top company in Canada with the longest dividend-growth streak.

### Strong dividend-growth record

Canadian Utilities should peak the interests of dividend investors because it has a track record of increasing its dividend for 44 years. Its recent dividend-per-share growth was decent.

From 2013 to present, it has increased its dividend from an annual payout of \$0.97 to \$1.30 per share, an income growth of 34% (or an average growth rate of 10.3% per year) for shareholders who bought in 2013.

However, its payout ratio is about 72% and historically high for the company. Unless earnings bounce back, shareholders should be concerned about its future growth potential.

### The business

**ATCO** owns 53% of Canadian Utilities. Canadian Utilities has assets of about \$18 billion. Its business operations include the following:

- Electricity: power generation, distributed generation, and electricity distribution, transmission and infrastructure development.
- Pipelines and liquids: natural gas transmission, distribution and infrastructure development, natural gas liquids storage and processing, and industrial water solutions.
- Retail energy: electricity and natural gas retail sales.

In 2015, 63% of its adjusted earnings came from its electricity operations (48% regulated and 15% non-regulated) and 37% came from its pipelines and liquids operations (34% regulated and 3% non-regulated).

Year over year, Canadian Utilities's electricity segment and pipelines and liquids segment experienced declined adjusted earnings of 12.7% and 3.6%, respectively. These declines were partly because of multiple regulatory decisions made by the company.

Excluding the regulatory decisions, the electricity segment would have experienced 4.6% adjusted earnings growth due to continued rate-base growth, and the pipelines and liquids segment would have experienced 18.4% growth due to continued rate-base growth and cost-reduction savings.

Between 2016 and 2018, Canadian Utilities anticipates capital growth projects of \$1.5-2 billion each year, totaling ~\$5.3 billion worth of projects. These should help Canadian Utilities drive growth.

## Conclusion

After the price dip to \$33.60, Canadian Utilities yields 3.9%. If you buy \$5,000 worth of shares, you can expect to receive about \$195 in eligible annual dividends. This income is more favourably taxed than your job's income or interest income in a non-registered account.

Canadian Utilities's dividend is safe for now. However, it can only continue growing at a 10% rate if its earnings start growing again. Interested investors should watch for earnings and revenue improvements before considering a position.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

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