Get Reliable and Predictable Dividends From These Utilities

Description

Utilities offer necessary products and services and tend to generate stable cash flows as a result. That's why utilities take three spots of the top five companies that have increased their dividends for the longest time. That's also why utilities generate about 18% of my portfolio's income. However, investors should try not to overpay for even the best of the best utilities. Here's why.

Canadian Utilities

I identified **Canadian Utilities Limited** (TSX:CU) as a quality utility last year. It is the Canadian company with the longest streak of growing dividends–44 years to be exact.

This track record really resonated with me, so I started buying its shares last year. My average cost is $38.72 per share, so I'm still about 8% below water, but I'm not worried. I'd initially bought the utility for its 3% dividend, and I expected it to continue increasing the dividend at a 7-10% rate. In the first quarter, it raised its dividend by 10%.

In hindsight, I could have picked it up between $30 and $32 when it dipped a few months ago. Of course, I didn't have a crystal ball; however, it was near its 52-week high and, according to its normal long-term multiple, it's still trading at a premium of about 15%.

Yet, over 10 years Canadian Utilities has primarily yielded in the range of 2.8-3.9%. So, whenever it yields close to 3.9%, it should be a decent buy. Canadian Utilities would yield 3.9% at $33.33 per share, and investors should consider the utility at or below that level to lock in a higher yield.

Brookfield Renewable

Brookfield Renewable Energy Partners LP (TSX:BEP.UN)(NYSE:BEP) was a decent value at about $35 per share, so I started buying at that level. When it fell lower, I took the opportunity to buy more shares to lower my average cost and to boost my income.

Brookfield Renewable is very different from Canadian Utilities. Brookfield Renewable owns and operates a hydro portfolio complemented by a wind portfolio. The utility has only increased its dividend for six consecutive years, but it expects to increase the dividend by 5-9% on average over the next few years. It last raised its dividend by 7.2% in the first quarter.

Brookfield Renewable pays U.S.-dollar-denominated distributions, so Canadian investors get a boost in income with the stronger U.S. dollar. Using a more conservative foreign exchange of US$1 to CAD$1.25, at about $38.50, Brookfield Renewable still yields 5.8%.

Income investors can still consider its fully valued shares today for the above-average income; however, it would be a better buy at the $35-36 level.

Conclusion: What's a good utility for today?

An investor can do worse than buying Canadian Utilities and Brookfield Renewable for income. However, a better deal in utilities today, in my opinion, is **ATCO Ltd.** (TSX:ACO.X).

ATCO owns about 53% of Canadian Utilities but is priced at a cheaper multiple and has a faster-growing dividend. Canadian Utilities hiked its dividend by about 10% per year in the past few years, while ATCO hiked its dividend by about 15% per year.

ATCO has increased its dividend for 22 consecutive years and is one of the top five Canadian dividend-growth companies. Although ATCO yields only 2.9%, it has a lower payout ratio than Canadian Utilities, so it's likely to continue growing its dividend at a faster pace than Canadian Utilities.

Additionally, over 10 years ATCO primarily yielded about 1.9-2.9%. So, whenever it yields close to 2.9%, it should be a decent buy. At under $39, ATCO yields 2.9%, so investors should consider this utility today. However, any dips to the $36 level or lower would be even better.

CATEGORY

1. Dividend Stocks
2. Investing

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.)
4. TSX:CU (Canadian Utilities Limited)

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