



## Should You Buy This Utility With 22 Years of Dividend Growth?

### Description

Utilities earn steady cash flows, so it's not surprising that **ATCO Ltd.** ([TSX:ACO.X](#)) was able to increase its dividend for 22 consecutive years. In fact, its dividend is still going strong. From 2012 to the present, ATCO has increased its dividend by 15% every single year!

### The business

ATCO has a 69-year history in over 100 countries. Today, its \$19 billion assets include seven modular building manufacturing locations (three in the United States, two in Canada, and two in Australia), 87,000 km of electric power lines, 63,300 km of pipelines, and 15 power plants with a capacity of over 3,800 megawatts.

It also has a water infrastructure capacity of 60,000 cubic metres per day and a natural gas storage capacity of over 50 petajoules.

### Why has its price fallen?

However, if you look closely, you'll find that ATCO's share price has been falling since 2014. Indeed, it has fallen 28% from a high of \$54 to \$39 per share. The utility's share price has followed its earnings per share (EPS) decline. From 2013 to 2015, ATCO's EPS fell on average 13.1% per year—a total of 25%.

Last year ATCO lost most of its earnings in its structures and logistics business segment, which made up 9% of its earnings. This segment's earnings were \$40 million (or 60%) lower than in 2014.

The company states that the lower earnings were due to “reduced profit margins and the conclusion of major Modular Structures projects in prior periods and lower Space Rentals and Workforce Housing utilizations and rental rates.” Thankfully, the “lower earnings in 2015 were partly offset by business-wide cost-reduction initiatives.”

ATCO has 75% of its earnings coming from regulated assets in electricity (44% of earnings) and pipelines and liquids (31%). These should help stabilize ATCO's earnings.

### **How can it maintain its dividend growth?**

ATCO's payout ratio is conservative, so it has been able to maintain its high dividend-growth rate of 15% even when earnings have fallen for a few years.

Based on its current quarterly dividend per share of 28.5 cents, equating to an annual payout of \$1.14 per share, the utility is only paying out 45% of its 2015 earnings. And this year's earnings are expected to improve, which will lower its payout ratio, making its dividend safer.

ATCO's dividend is also secured by its stable cash flows. Since its cash flow per share fell 13% in 2014, it has pretty much remained stable.

### **Conclusion**

It's not necessarily a bad thing for ATCO to experience setbacks in its structures and logistics business because they'll make the company leaner and more competitive for the future.

In the meantime, investors can buy ATCO's depressed shares with a historically high yield of 2.9% at \$39 per share. The company has a strong track record of dividend growth that will continue due to a conservative payout ratio and potential earnings improvement in the coming years.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:ACO.X (ATCO Ltd.)

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