Dividend Investors: Consider Canadian Utilities Limited

Description

Dividend investors everywhere clamour for companies with dividends that are sustainable, growing, or at least stable with a decent yield. Few companies, however, provide all of these with a dividend that could be considered *guaranteed.*

Canadian Utilities Limited (TSX:CU) provides a diversified portfolio of energy products primarily in Canada, the U.S., and Australia. The company's divisions include electricity, pipelines and liquids, and corporate and other. This diversification effect is seen in the fact that the company was able to increase Q3 2016 earnings year over year on and adjusted basis with the price of oil and other commodities remaining severely constrained.

Long-term investments with stable contract revenues

Canadian Utilities's $391 million of capital investment in the third quarter and $1.142 billion year-to-date is impressive, considering 86% of these investments have been made in the company's regulated utilities or long-term contracted capital assets. This means that 86% of the company's future cash flows generated will be under long-term contracts (guaranteed), thus providing additional security for a dividend that would otherwise be considered very safe.

The company's return on assets over time has been impressive, and long-term investors should be assured of continued growth in earnings and distributions over the long term.

Q4 2016 dividend an increase of 15% since last year

The company's sustained dividend growth over the past two decades is impressive and should not be overlooked by long-term investors. Benjamin Graham's *Intelligent Investor*, a favourite book of many iconic investors such as Warren Buffett, lists a record of at least 10 years of growing dividends as criteria he uses in narrowing down a massive list of available stocks into a list of stocks worthy of investment.

I pay significant attention to the stability, the growth rate, the yield, and what the payout ratio of the dividend has been over time. All four categories warrant a hard look from every investor looking for a stable, income-producing gem for the long haul.

Long-term upside vs. long-term risk

The announcement of new technology aimed at replacing "the grid," or the major utilities sector as a whole, make the idea of living off the grid not as far-fetched as it may have seemed 10 or 20 years ago.

That said, the reality is that nuclear, coal, and hydro power plants remain the cheapest forms of energy generation and are unlikely to be surpassed by solar or wind power for a long time. These power forms, created in aggregate and sold to the masses piecemeal, need large grid systems and utility companies to disperse the energy according to population density. The cities of the world will have the hardest time moving away from traditional power due to the increased need for stable and secure power sources.

Current battery technology, even with the new Powerwall announced by **Tesla Motors Inc.** (NASDAQ:TSLA) coming to market shortly, can't service large commercial buildings or urban areas due to the increased energy demand. It is estimated that the Powerwall can store approximately seven kWh of energy; the average Canadian home uses more than 20 kWh, meaning the rest of the power needed to service the home will need to be generated each and every day, which is not something that is possible in many regions of Canada.

Utilities will be around for a while. The decade-long contracts that companies such as Canadian Utilities make with its customers attest to this fact.

CATEGORY

1. Energy Stocks
2. Investing

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1. NASDAQ:TSLA (Tesla Inc.)
2. TSX:CU (Canadian Utilities Limited)

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