2 Utilities With Big, Growing Dividends

Description

By investing in a market index fund, such as **iShares S&P/TSX 60 Index Fund**, you can get a yield of nearly 2.6%. If you choose a broad-market index fund, such as **SPDR S&P 500 ETF Trust**, the yield is even lower at 1.9%.

Although there's more diversification in the funds, you don't get nearly as much income as you do if you pick individual stocks carefully.

Utilities are cash cows in general. They tend to generate lots of cash flows to pay down debt and have the ability to grow their dividends. In turn, their growing dividends tend to support higher share prices over the long term.

Here are two utilities that are priced at reasonable valuations for their growth potential.

At $11.80 per share, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) trades at a price-to-earnings ratio (P/E) of 22.3, while the analyst consensus estimates it could grow its earnings per share (EPS) by 12.7% for the next three to five years.

Emera Inc. (TSX:EMA) trades at a P/E of 16.4 at about $45.30 per share, while the analyst consensus estimates it could grow its EPS by 8.6% for the next three to five years.

Image not found or type unknown
money, cash, dividends 16-9

Algonquin yields 5.1%

Algonquin offers an above-average yield among its peers. That partly has to do with a stronger U.S. dollar against the Canadian dollar as it offers a U.S. dollar–denominated dividend.

Management aims to increase that dividend by 10% per year through 2021.

The company’s dividend is supported by stable cash flows generated from a diversified portfolio of North American assets.

They include rate-regulated services that distribute natural gas, electricity, or water to 782,000 customers in 13 states with a return on equity of 9-10%.

Algonquin also has a renewable portfolio with a net installed capacity of 1,200 MW, of which 85% of the generation is under long-term power-purchase contracts with inflation escalations. The average power-purchase-agreement length is 15 years.

Including the recent Empire acquisition, Algonquin has $9.7 billion of investment opportunities through 2021 to support a growing dividend.

Emera yields 4.6%

Emera has about $29 billion of assets and is involved in electricity generation, transmission and distribution, gas transmission and distribution, and utility energy services.

It operates in North America and four Caribbean countries. It targets to earn 75-85% of its adjusted earnings from rate-regulated businesses.

The TECO Energy acquisition completed in July 2016 is expected to support Emera to grow its dividend by 8% per year through 2020.

Investor takeaway

Algonquin and Emera offer big yields of 4.6-5.1%. Their dividends are expected to grow by at least 8% for the next few years. Under normal market conditions, their growing dividends should support a rising share price over time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:EMA (Emera Incorporated)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks

2. Investing

Date
2025/07/29
Date Created
2017/02/20
Author
kayng