1 Severely Undervalued Utility to Buy Today

Description

The utility sector has always been a reliable and safe place to hold a large amount of capital for many income investors. The dividend yields are quite attractive and allow many retirees to sleep easy at night knowing they won't get completely crushed in the event of an economic downturn.

Sure, utilities are boring, but they're simple, and simple stocks have predictable earnings and cash flows, which is comforting if you're going to be a long-term shareholder. Everyone in the market is bullish right now, so boring, defensive utility stocks may not be on the minds of most investors. While other investors are looking for high-flying stocks, it may be a good strategy to look for some simple utilities that have gone out of favour with the majority.

Here is one undervalued utility that I believe is trading at a discount to its intrinsic value at current levels.

Canadian Utilities Limited (TSX:CU) is in the business of transmission and distribution of electricity and natural gas. The company has a sustainable dividend that has grown by leaps and bounds over the last decade. The stock has been a laggard over the last two years, but the attractive valuation and dividend-growth potential are great reasons to consider the stock today.

The company is a dividend-growth superstar which increased its dividend even during the Financial Crisis. The stock was one of the better names during this time; it only decreased by 35%, while most other companies lost over half their values. There's no question it's a terrific way to play defence, especially since we're in the late stages of a bull market and there's been nothing but optimism since Dow broke through the 20,000 level.

As Warren Buffett used to say, "…be fearful when others are greedy, and greedy when others are fearful." It can't hurt to play a little defence while others get overexcited about this market. Now is a great time to pick up shares if you're a long-term investor that seeks income.

The stock currently trades at a forward price-to-earnings multiple of 16, which is considerably lower than the company's five-year historical average multiple of 19.7. The stock also looks very cheap on a price-to-book basis with a multiple of 2.1, which is much lower than the company's five-year average of

2.3.

The stock yields a very bountiful 3.91% dividend, which is considerably lower than the historical average yield. It's almost a certainty that the dividend will be raised again this year, so income investors may soon be able to collect a dividend with a yield north of 4%.

If you're an income investor that is looking to play defence, and you've got a time horizon of five years or more, then it's a great time to scoop up shares of Canadian Utilities while they're undervalued.

Stay smart. Stay cautious. Stay Foolish.

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