



2 Utilities With 3.6% Yields and Capital-Appreciation Potential

Description

The utilities sector is one that has been defined as a boring, defensive sector, considered largely by investors as a place to play it safe and put money away for an extended period of time. The utilities sector is certainly a unique one in that investors have a margin of safety with investments covering a large portion of the invested capital. This means investors should be able to put money into a utilities company and forget about it, coming back years later to see the principal investment still there, along with dividend income accumulated over the lifespan of the investment.

As such, utilities are often looked at as a bond proxy, providing income over a long period of time with a capital investment that should largely follow inflation. This is one of the main reasons why long-term investors prefer utilities.

Buying stocks at or near the book value of the underlying business's assets ensures that a significant portion of the principal investment is secured with a reasonably assured income stream sure to come in the mid to long term.

I'll look at two names that have done very well historically and are poised to continue to grow in good times and bad.

Fortis Inc.

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#)) has been one of my favourite utility picks for a while. After analyzing this company's financial statements and its long-term position in the Canadian and global utilities markets, I have picked Fortis out of the bunch as a company with a solid long-term strategy which supports a strong balance sheet and capital expenditures in worthwhile projects in the North American utilities market.

Besides boasting one of the best dividend records of any Canadian utility out there, Fortis has made some great long-term acquisitions that should provide long-term revenue stability in a sector that has been challenged by renewable energy companies; Fortis has committed \$13 billion over the next four years in investments that include renewable energy projects — investments that are expected to generate increased revenues on the order of \$30 billion over the long term.

Canadian Utilities Limited

Canadian Utilities Limited ([TSX:CU](#)) is another company operating in the heavily regulated utilities space globally. This company is centred in Canada; it's focused on a number of Canadian electricity, natural gas, and pipelines operations, meaning Canadian Utilities benefits from a diversified approach to utilities that has led to a stable and growing return for investors over the past 18 years.

The safety of Canadian Utilities's income stream is derived largely from its diversification activities across sectors as well as geographically, and this company is poised to continue its growth with an acquisitive and organic growth model stemming from the company's strong free cash flow-generating business model.

Stay Foolish, my friends.

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