Why You Should Consider This Utility for Your Portfolio

Description

If you're a long-term investor, you should consider this stable utility for your portfolio.

Canadian Utilities Limited (TSX:CU) has grown its dividend for many years. Moreover, it has also proved to be more resilient to downturns than the market.

In the last recession, the stock fell about 30% from peak to trough compared to the Canadian market (using **iShares S&P/TSX 60 Index Fund** (TSX:XIU) as a proxy), which fell 44%.

The more important point is that Canadian Utilities's adjusted earnings per share actually increased throughout the recession. Specifically, from 2007 to 2009, they increased 24%.

It has the longest dividend-growth streak

It's hard to ignore Canadian Utilities, especially when it is the top publicly traded dividend-growth company in Canada with the longest streak of dividend growth. The utility has increased its dividend per share every year since 1972 for 45 consecutive years.

For nearly 40 years, the utility increased its dividend per share at an annualized rate of 7%. Then, in the past five years, it increased its dividend per share by nearly 62% at a higher annualized rate of 10%.

Currently, the shares pay an annualized dividend per share of $1.43, which equates to a competitive yield of 3.6% as of the recent quotation of $39.70 per share. The utility's payout ratio is estimated to be about 61% this year. So, there's room for future dividend growth.

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utility power supply

Improving earnings quality

Canadian Utilities has also been improving its earnings quality by investing $10 billion in regulated utilities and long-term contracted capital investments from 2011 to 2016.

Its regulated adjusted earnings now contribute about 93% of its adjusted earnings compared to 52% from 2011. So, the company now generates more reliable earnings than before.

An A-grade company

Canadian Utilities is awarded an A credit rating from S&P and DBRS. Maintaining a strong credit rating allows the company to access the capital markets at attractive rates when needed.

For example, in November 2016, an Alberta-based subsidiary of Canadian Utilities issued $375 million of 30-year debentures at a rate of 3.76%. The proceeds were used to invest in its business, which should contribute to growth.

Going forward

This year through 2019, Canadian Utilities plans to invest $5 billion into its business, including in regulated utility projects. These will contribute to growing the company's cash flows and earnings to support a rising dividend.

Investor takeaway

You should consider Canadian Utilities for your long-term portfolio. Since the utility has improved the reliability of its earnings with regulated adjusted earnings making up 93% of its overall earnings, its dividend is safer than it was before. Additionally, its payout ratio of about 61% and its capital program support a sustainable, growing dividend.

At $39.70 per share, the stable utility trades at a price-to-earnings ratio of 17.6. If shares fell to the $32-36 level for a multiple of 16 or less and a yield of about 4% or higher, it'd be an attractive entry point for the quality shares.

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kayng