3 Utility Stocks for Your Portfolio

Description

Utilities are some of the best investments that you can make, despite the common stereotype of being boring investments that lack any real growth.

Utilities are typically bound by long-term service contracts called power-purchase agreements (PPA) that provide the utility a regulated cost for periods as long as 40 years. This leaves little avenue for growth apart from the organic route of increased demand, which is slow, or upgrading the utility's facilities to be higher capacity and more efficient, which is a generational event and arguably slower than the first option.

But most utility investments are incredibly stable and, in many cases, offer yields that have the potential over several years to become major income generators.

Here's a look at a few utility stocks that may warrant a position in your portfolio.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is not only a great utility to invest in, but it also happens to be one of the largest utilities on the continent. Fortis is the antithesis of the utility stereotype.

Rather than staying content with the stable revenue it generates, Fortis has taken a more aggressive approach. It actively expands into new markets where the opportunity for acquisitions present themselves. This has worked out particularly well for Fortis, as the company continues to forecast at least 6% growth over the next few years.

Fortis's latest major acquisition was a US$11.3 billion deal for ITC Holdings. That deal exposed Fortis to seven new states in the U.S. and pushed Fortis up an exclusive list of the largest utilities on the continent.

Fortis has consistently hiked the dividend annually for well over four decades. That level of stability and growth is admirable, and long-time investors in the stock will do doubt tout the income-generating capacity of the company. The current quarterly dividend pays out $0.40, representing a yield of 3.62%.

Fortis currently trades at $44.25 and has a P/E of 21.82.

Innergex Renewables Energy Inc. (TSX:INE) is one of the largest independent power producers in the market. The company has a diversified mix of renewable energy facilities that include wind, solar, and hydro facilities located across the U.S., Canada, and France.

Utilities are uniquely positioned in the market to offer consumers a service, which we, for the most part, take for granted. We don't question why our lights are on — they just are — and Innergex is leading the charge on the renewable front.

Innergex has steadily increased both capacity and the number of facilities it operates. The company boasts 49 facilities with just over 1,000 MW of net capacity. To put this amount of power into perspective, one MW is the amount of electricity needed to power 200 Canadian homes.

This steady increase is key as more jurisdictions around the world adopt climate policies that are becoming increasingly reliant on generating power through renewable energy sources. This helps solidify an already strong moat that is typical of utilities, particularly when a long-term agreement is in place.

Innergex pays a quarterly dividend in the amount of $0.165 per share, which results in a very healthy yield of 4.55% at the current stock price.

TransAlta Renewables Inc. (TSX:RNW) is another renewable energy pick that holds plenty of potential. Like Innergex, TransAlta is an independent power producer, but TransAlta's portfolio has facilities in Australia in addition to the U.S. and Canada. TransAlta is well diversified with wind, gas, and hydro facilities.

In terms of a dividend, TransAlta really shines. The company offers a monthly dividend of $0.0733 which provides an impressive 5.57% yield at the current stock price.

Earlier this month, TransAlta provided results for the first fiscal quarter of 2017 that continued to highlight the strength of the business. Net earnings of $27 million were realized in the quarter — a significant improvement over the $36 million loss posted in the same quarter last year.

Revenue in the most recent quarter topped $129 million, an increase over the $68 million posted in the same quarter last year.

TransAlta currently trades at just below $16 and has already surged 10% year to date and over 20% over the course of the past year.

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1. Editor's Choice

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