



3 Utilities Every Portfolio Should Include

Description

Utilities have long held the stereotype of being boring investments that lack any true growth prospects. In reality, this statement couldn't be further from the truth. There are several truly great utility investments on the market that can provide significant growth and income-generating potential to investors.

Why invest in a utility?

People can cut back on a lot of things and, in some cases, eliminate them completely from a budget, but utilities aren't on that list.

Because of that essential need that utilities provide, the revenue that utilities receive is typically in the form of a regulated contract that can span decades. These agreements are referred to as power-purchase agreements (PPA) and provide a steady and reliable stream of income to the utility. PPAs are often the source of the "no-growth" fallacy.

In reality, PPAs result in the exact opposite of the stereotype: a steady stream of revenue that can be used to fund the growth of the utility, either through acquisitions or upgrading to more modern renewable energy facilities.

Here's a look at a few of those utilities and why they would make a great addition to nearly any portfolio.

Hydro One Ltd. ([TSX:H](#)) is one such investment. Hydro One has a virtual monopoly over the electricity transmission network in Ontario. As impressive as that sounds, Hydro One is working on expanding that nearly impenetrable moat even further.

Hydro One has announced plans to upgrade its existing network, which will result in greater cost savings and synergies. The \$1.6 billion investment the company is planning will also be used to pick up any remaining transmission companies in the province.

For investors, this translates into further growth and dividend hikes over the next few years. And speaking of dividends, Hydro One offers an appetizing \$0.22 quarterly dividend that provides investors

with a yield of 3.78%.

Hydro One currently trades at just over \$23 with a P/E of 20.46.

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#)) is a classic example of a utility that has grown immensely over the years through acquisitions to become one of the largest utility on the continent. Fortis is particularly skilled in identifying acquisition targets that not only provide growth options for the dividend but also greatly expand and complement the company's footprint.

An example of this is Fortis's most recent major acquisition, ITC Holdings. The multi-billion-dollar deal exposed Fortis to several new U.S. state markets and is set to fuel annual growth of at least 6% through 2021.

Fortis pays an impressive \$0.40 quarterly dividend, which results in a 3.51% yield at the current stock price.

Fortis currently trades at just over \$45 with a P/E of 22.48.

Algonquin Power & Utilities Corp. ([TSX:AQN](#))([NYSE:AQN](#)) offers investors steady growth from both traditional and renewable forms of energy production with facilities across the U.S. and Canada.

In total, Algonquin has an interest in 35 clean-energy facilities across North America that include wind, solar, hydro, and thermal elements. Additionally, Algonquin's Liberty Utilities segment provides water, electricity, and gas utility services to customers in 12 U.S. states.

From a growth perspective, Algonquin has a myriad of deals underway, including a US\$300 million deal to develop a wind farm with a lifespan of 20 years in Michigan. The facility is set to come online later this year. Algonquin also recently acquired Empire District Electric Co.; once complete later this year, it will increase Algonquin's customer base by 40% and fuel growth for several years.

Algonquin offers investors an impressive quarterly dividend of \$0.1533 per share, which results in a very attractive 4.55% yield at the current stock price of just over \$14.

Algonquin has a P/E of 38.76.

CATEGORY

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