Is This Dividend-Growth Stock a Buy After an 8% Plunge?

Description

ATCO Ltd. (TSX:ACO.X) shares have fallen 8% since this global logistics and energy infrastructure company announced disappointing second-quarter results. Does this dip provide a good buying opportunity to income investors who are looking to invest in a quality dividend-growth stock?

Utilities provide steady and stable returns to investors. Electric or gas utilities will continue to generate cash as long as we need to turn on the lights and keep our homes cozy. For this simple reason, utilities make a large portion of income portfolios, because they ensure stability in dividend and inflation-beating returns.

ATCO is a diversified global corporation with $20 billion in assets. Its businesses include structures and logistics, electricity generation, transmission, and distribution, pipelines, liquids and retail energy sales. Its principal subsidiaries include **Canadian Utilities Limited** — one of the biggest utilities in Canada.

Let's first try to understand what made investors nervous about this stock, which has performed quite strongly so far this year.

On July 27, ATCO reported that its second-quarter adjusted earnings fell to $71 million from $81 million in the same period a year ago. The company attributed this decline to a regulatory decision by Alberta Utilities Commission that adversely impacted its electric transmission's adjusted earnings.

The second trigger for the recent price action seems to be coming from some adverse rating actions by the Standard & Poor's Ratings Service last week.

On July 25, Standard & Poor's cut its long-term corporate credit rating from 'A' to 'A-' on ATCO and its subsidiaries, Canadian Utilities Limited and **CU Inc.** The next day, Standard & Poor's downgraded its long-term corporate credit rating from 'A-' to 'BBB+' for **ATCO Gas Australia LP**.

I believe this flurry of negative announcements has shaken some investors' faith in ATCO shares. But I think the company's long-term value remains intact. Here is why.

ATCO is a growth play

ATCO invested $717 million in the first half of 2017 on capital growth projects. Of this investment, 96% was invested in assets that earn a return under a regulatory business model or are secured under long-term contracts. These investments are part of ATCO's $5 billion investments for capital growth projects between 2017 and 2019.

This capital investment is expected to contribute significant earnings and cash flow and create long-term value for share owners.

For income investors, ATCO is a quality dividend-growth stock. It pays a quarterly dividend of $0.3275 per share, or $1.31 per share annually, yielding 2.74% at the time of writing this report.

ATCO has a long history of rewarding its investors. It has raised its annual dividend payment for 23 consecutive years with a compound annual growth rate of about 15% since 2011.

ATCO's recent share price retreat provides a good entry point to investors looking to include a diversified utility stock in their portfolios. At $46.41, it shares are trading 13% lower from the 52-week high. With a price-to-earnings multiple of 16.12, ATCO shares aren't expensive when compared to other utilities in the region.

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