Is Canadian Utilities Limited Still a Prudent Buy Today?

Description

Canadian Utilities Limited (TSX:CU) is a great defensive dividend-growth king for retirees who are worried that the markets are overdue for a correction. For doomsday investors, owning shares of CU is a safe bet since shares didn't crash as hard as the index did during the last recession, and the company still grew its dividend at a time when many other businesses cut theirs.

Over the last five years, shares of CU only returned 15%, which was really underwhelming. Although the company grew its dividend by a large amount during this span, many of the company's peers have delivered far superior results. Is CU and its 3.56% yield still worth holding over the long run?

Solid long-term dividend-growth play for cautious investors

Canadian Utilities is your typical stable, slow-growth utility in the business of electricity and gas transmission as well as distribution. To young investors, the stock may seem like an immediate pass, but for long-term income investors seeking stability and safety, Canadian Utilities is a great high-yield and dividend-growth bet. The company has increased its dividend per share at an average annualized rate of 7% for the last few decades. More recently, the average dividend per share has grown thanks to growth initiatives which will support future dividend increases.

The company plans to spend approximately $5 billion between this year and 2019 to boost its long-term cash flow stream. With a payout ratio of 63%, there is more room for consistent annual dividend increases, even if the markets were to suffer a massive plunge later this year.

Defensive names out of favour

Many defensive stocks like Canadian Utilities have been overlooked in favour of cyclical names to maximize returns once President Trump's pro-growth agenda comes into play. The agenda is expected to give the U.S. a boost, which will, in turn, give Canada a much-needed bump.

Many investors are overly bullish right now, but before you get caught up in the hype, you should ensure that your portfolio is well equipped to deal with the next economic downturn, because it's probably going to happen when we least expect it. There are no alarm bells that warn investors that a crash is coming; it usually catches everybody off guard, and it's usually too late to play defence when the tides turn.

Valuation

CU stock trades at an 18.75 price-to-earnings multiple, a 2.2 price-to-book multiple, and a 6.6 price-to-cash flow multiple, all of which are in line with the company's five-year historical average multiples of 19.7, 2.3, and 6.1, respectively.

CU plunged 3.21% on July 30, 2017, following a downgrade, but they are still up 11% since my buy recommendation earlier this year. If you still own shares, I'd probably hold for now since shares appear to be fully valued. Prudent investors should probably keep CU on their radars in case shares drop back to a more attractive mid-$30 level in the coming months.

Although you won't generate huge returns over a short period of time, sometimes slow and steady wins the race, especially when the market takes an ugly, unexpected turn.

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