Is it Time to Buy This High-Growth Utility Stock?

Description

ATCO Ltd. (TSX:ACO.X) stock experienced a meaningful pullback of roughly 15% from its 52-week high to near a 52-week low. Is the dividend-growth star a good buy today?

First, let's take a look to see if it's the kind of company you want to own.

A company overview

ATCO is engaged in the businesses of structures and logistics (which include workforce housing, modular facilities, construction, site support services, and logistics and operations management), electricity generation, transmission, and distribution, pipelines and liquids (which include natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions), and electricity and natural gas retail sales.

ATCO owns its utilities via its nearly 53% interest in **Canadian Utilities Limited** (TSX:CU). Both ATCO and Canadian Utilities are dividend-growth companies, but ATCO has historically experienced higher dividend growth and maintained a lower yield.

Impressive dividend-growth record

ATCO has increased its dividend for 23 consecutive years. Its one-, three-, and five-year dividend-growth rates are about 15%, while its 10-year dividend-growth rate is almost 11%.

The company's payout ratio has expanded from below 30% a few years ago to about 44% this year. So, its dividend remains sustainable, despite having grown its dividend at a fast pace.

Recent developments

In December, there's news that ATCO will invest in Mexico, including midstream opportunities in the oil and gas industry, and that it is acquiring some hydro assets.

On December 21, Canadian Utilities announced that it will be transferring the nearly 25% remaining ownership interest in the structures and logistics business to ATCO for about $140 million in cash, such that ATCO will own 100% of the business after the transaction.

Investor takeaway

ATCO's return on equity (ROE) dropped significantly in 2015. The ROE improved in 2016, but it was still lower than normal. This, no doubt, has partly to do with the company's exposure to Alberta and the low oil and gas prices. If we see further recovery in the oil and gas industry, it will be a good boost for the company.

ATCO has doubled its assets since 2009 and increased its regulated earnings from 39% to 81% since 2011. So, management has been growing the company while improving the quality of its earnings.

Historically, ATCO seldom reaches a yield of 3%. At Friday's closing price of $44.40 per share, the stock offers a yield of 2.95%.

Cautious investors might wait until the company announces its dividend hike for the first quarter (based on its usual schedule) before deciding if they want to invest in the stock. The board of directors might decide to slow down the dividend growth if they see more challenges ahead in the oil and gas industry.

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