Strength in the Utility Sector and ATCO Ltd.'s 52-Week Low

Description

ATCO Ltd. (TSX:ACO.X) is an Alberta-based company with a humble 1940's beginning followed by substantive growth to a global business focused on natural gas pipelines and distribution as well as electricity distribution. ATCO is touching down to a 52-week low, which may be a good entry point for income investors.

Although operations are in several countries (including Australia and Chile), most of ATCO's revenues come from North America, and a major driver of this revenue is the electricity business (46% of the $4 billion revenue came from the electricity segment in 2016).

Showing signs of that entrepreneurial beginning, ATCO announced in November that it would team up with a company called FLO and build electric-vehicle charging stations in three Albertan cities. Does ATCO know something about the car landscape in Alberta? The electric-vehicle market in Canada is decisively not Albertan; Ontario dominates with one-third of these vehicles, whereas Alberta has only 3% of the country's electric vehicles, according to fleetcarma.com.

These are a few reasons why ATCO is on my radar. Questions remain, however: How does ATCO compare to two other players in this sector, **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN).

On ATCO

ATCO tends to add ~$0.14 per share to the dividend each year. The current yield is 2.87%. Consistently adding to the dividend is what will keep income investors holding this stock for long periods of time.

The utilities investment thesis is to collect dividends sustainably. One has to assess whether the company is over-stretched with debt. One useful metric is the current ratio — the ratio of the current assets over the current liabilities. A higher number, generally above 1.5, indicates that the company is in a position to pay off financial obligations, like short-term debt. ATCO's current ratio is one compared to a historic average of 1.3. This financial risk metric can be used alongside the debt-to-equity ratio, which has crept up as of late — currently 0.99 — for ATCO.

On Fortis

Fortis is no stranger to the average investor, nor to the Fool reader. Fortis has the lowest current ratio at 0.5 (below a historic average of 0.73). Like ATCO, the debt-to-equity ratio has exceeded one at various times, although it is currently at 0.96. Fortis pays a 3.52% yield. The solid cash flows help to explain why Fortis has the lowest dividend-payout ratio, hovering around the 60% margin over long periods of time.

On Algonquin Power

Algonquin has a current ratio of 0.9, below a historic average of 1.1. Algonquin has the lowest debt-to-equity ratio on this list at 0.74. It also pays the highest dividend yield for this list. The 4.2% yield to shareholders is a bit rich for the company, however, since the dividend payout is fairly consistently around 100% (and sometimes more, as is the case from recent quarters).

Bottom line

All three of these utilities have low current ratios (a sign of financial risk) compared to other sectors that borrow less money over short and long terms. But all three are fairly valued, with ATCO being the most appealing price at present. Now is the time to pick up ATCO. Any widespread market pullback this year would also be a good time to pick up all three for an income portfolio.

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Date
2025/08/13
Date Created
2018/01/04
Author
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