These Utilities Just Hiked Their Dividends by 10% or More

Description

Which income investor doesn't enjoy holding stocks that increase their dividends? **ATCO Ltd.** (TSX:ACO.X) and **Canadian Utilities Limited** (TSX:CU) are among the top five dividend-growth stocks on the Toronto Stock Exchange. In fact, Canadian Utilities is the top dividend-growth stock.

Canadian Utilities has hiked its dividend for 46 consecutive years — the longest growth streak for any publicly traded company in Canada, while ATCO has hiked its dividend for 24 consecutive years. If anything, growing dividends is ingrained in the culture of these utilities. In fact, these utilities just announced increases for their first-quarter dividends.

And the recent dips in their stocks make them attractive candidates for income-focused investors.

Bigger dividends? Yes, please

Last Thursday, ATCO hiked its dividend by about 15%, and Canadian Utilities increased its dividend by roughly 10%. These growth rates align with their one-, three-, and five-year dividend-growth rates, and are higher than their 10-year growth rates.

ATCO's dividend yield is now nearly 3.5% based on the recent quotation of about $43.60 per share. This yield is at the high end of its historical range, which indicates the utility may be a good buy at current levels.

Canadian Utilities's dividend yield is now almost 4.4% based on the recent quotation of about $36.20 per share. This yield is at the high end of its historical range, which could indicate the utility is a good buy at current levels.

The businesses

ATCO owns nearly 53% of Canadian Utilities. So, what does ATCO have that Canadian Utilities doesn’t?

It has a structures and logistics business, which operates on four continents and provides workforce housing solutions and bundled lodging and support services that allow ATCO’s customers to work anywhere.

Canadian Utilities’s pipelines and liquids business delivers vertically integrated energy and industrial water solutions, including transporting and delivering natural gas and energy storage. It’s also involved with electricity generation, transmission, and distribution.

The companies have improved their earnings quality over time with ATCO’s regulated adjusted earnings reaching 81% of the total in 2016 and 93% for Canadian Utilities.

ATCO’s structures and logistics business causes the company to experience more volatile earnings. For example, in the first three quarters of 2017, ATCO’s adjusted earnings were 8.6% lower than they were in the same period in 2016.

Investor takeaway

After the stocks of ATCO and Canadian Utilities dipped ~17% and ~14% from their recent highs, they are more attractive candidates for current income and income growth. ATCO offers a roughly 3.5% yield, and Canadian Utilities offers a nearly 4.4% yield.

ATCO plans to invest $3.3 billion across its businesses for the next couple of years, which should lead to earnings, cash flow, and dividend growth.

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