



## Why Utilities Should Be at the Top of Your List!

### Description

When something is loathed by many, it's sometimes the best opportunity for investors to begin buying, as in many cases, the tide is often set to turn. As the old saying goes, "Buy low and sell high" is being reaffirmed repeatedly. In the case of utility stocks and their attractiveness amidst [higher rates](#) of interest, investors now have the opportunity to buy at a very attractive price.

After the most recent rate hike, many utility stocks that are known as highly leveraged entities could pay a high amount of net income (or free cash), as dividends are not the most favoured in the market. The headwinds are now twofold.

First, as interest rates rise, the cost of financing the debt that was incurred in order to build the infrastructure used to generate revenues and the total amount of free cash available to investors will decline in tandem with higher interest rates. In many cases, however, the borrowings are fixed for a period; the reality is that time does move forward and long-term bonds do mature. Eventually, utility companies will have to roll their debts and potentially take on new debt if they want to expand their footprint and grow revenues at more than the rate of inflation.

The second headwind for investors in utility stocks is the comparison between the dividend yield that investors would receive when purchasing shares and the rate offered on long-term bonds. As interest rates have recently increased by yet another quarter point, the rate offered to investors in fixed-income investments is no longer so low that it doesn't warrant consideration. The dividend yield, which was previously high enough to justify taking on additional risk, may now fall short of what is needed to justify purchasing stocks.

In many cases, the result of this is a decline in [share price](#).

Enter **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)), which has traded between \$7 and \$8.50 over the past year. At its current price of \$7 per share, investors will receive a dividend yield of more than 2.25% as the company continues to retain close to 90% of cash flows from operations and trades at a discount to tangible book value as a result.

When subtracting all liabilities and goodwill from the assets, the amount left over is no less than \$10.17

on a per share basis. With a 30% discount to tangible assets, one has to wonder what investors are waiting for before snapping up this gem.

For those worried about the dilution of shareholders' equity, one of the best things about TransAlta Corporation is that the low dividend has made it much easier to keep the total number of shares outstanding in check — and keep shareholders very happy, too. With what is clearly significant potential, the only question to ask is when the broader market will realize the value of this company.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:TA (TransAlta Corporation)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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