



These 3 Utilities Are on My 2018 Watch List

Description

Investing in utilities remains something of a taboo among some investors, despite the lucrative potential that many of them offer. Part of that stems from the perceived stereotype that utilities lack any sort of growth opportunity, thanks to their secure stream of revenue. Others still view the higher dividend they offer as a means of stifling innovation and growth prospects, resulting in the utility presumably resting on its laurels.

Let's dispel those myths by looking at a few great utilities.

When it comes to utilities that have witnessed incredible growth, **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) comes directly to mind. Fortis is one of the top 15 largest utilities on the continent — something the company has achieved thanks to a very aggressive and targeted expansion agenda.

An example of this is the deal for ITC Holdings, which was Fortis's largest acquisition. That deal allowed Fortis to enter several new U.S. state markets, which has translated into 60% of Fortis's earnings now stemming from south of the border. In addition to the increased market size, Fortis gained access to a network of over 25,000 km of high-voltage lines through the acquisition.

Fortis is not only a great growth pick — the company also offers an impressive dividend. Few companies can attest to having decades of consecutive growth, but Fortis is one of them, with an impressive record that spans consecutively over four decades.

Even better, that dividend growth is slated to continue through at least 2022, with Fortis forecasting an annual bump of 6% to add to an already appetizing 3.93% yield.

Algonquin Power & Utilities Corp. ([TSX:AQN](#))([NYSE:AQN](#)) is another great option for investors looking at a buy-and-forget utility for their portfolio. Algonquin offers distribution, generation, and transmission assets that provide electricity, natural gas, and water utilities to over 750,000 customers across more than a dozen states.

As with most utilities, the bulk of that revenue is regulated, stable, and recurring. Algonquin has some non-regulated assets, but those facilities are covered by long-term contracts which can span nearly two

decades.

In other words, Algonquin provides a diversified complement of utility services to a growing number of customers across a large geographic region. That makes for some incredible growth prospects over the long term. The company even has some renewable energy assets that encompass solar, wind, and hydro elements.

In terms of a dividend, Algonquin may not have the four-decade record of Fortis, but Algonquin's seven-year string of consecutive increases is an impressive feat, which the company is slating to continue through 2022 at a growth rate of 10% annually.

The current payout ratio of 86% provides a very impressive 4.29% yield.

Hydro One Ltd. (TSX:H) may be a controversial choice for some investors, particularly those that are also clients of the power behemoth. Hydro One has what is essentially a monopoly over the electricity transmission and distribution in Ontario.

I say it's essentially a monopoly, because there are still some regional players in the market, but they are insignificant in terms of volume when compared to Hydro One. That monopoly provides an incredible moat for the company; it provides electricity to Canada's most populous province.

The flip side of that monopoly is that attempts to hike rates has and will continue to be met with fierce pushback from consumers, regulatory bodies, and even the government.

Investors considering Hydro One should be focused on the opportunity the company has for growth as well as its nearly impenetrable moat over Ontario rather than failed attempts to raise rates. The acquisition of Washington-based Avista Corp. last quarter weighed down quarterly results, but updated quarterly numbers that are expected next month should provide a different story for investors.

In terms of a dividend Hydro One offers an impressive 4.01% yield.

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Date

2025/08/26

Date Created

2018/01/25

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