



Here's a Canadian Utility Whose Dividend Yield Is the Highest it's Been in Nearly 2 Decades!

Description

Canadian utility stocks have been hit hard lately thanks to fears of rapidly rising interest rates. While a rising-rate environment is bad news for capex-intensive utility stocks, I think investors who are intentionally avoiding them are doing their portfolios a huge disservice, especially when you consider that stomach-churning amounts of volatility are likely here to stay.

It's the new normal, and investors shouldn't expect record-low levels of volatility like the U.S. markets experienced throughout 2017. Those days are long gone. So, investors who hate volatility should be looking to smooth the road ahead with cheap, low-beta utility stocks that are dependable, even in times of turmoil.

What's a great cheap Canadian utility?

Well, **Canadian Utilities Ltd.** ([TSX:CU](#)) stands out as the obvious first place to look. The dividend, which currently yields ~4.7%, is the highest it's been since 2000, when the yield hit 4.6%. Did you want a bargain? Well, here it is! Right now, it's down over 20% from its 52-week high.

To put things into perspective, consider how the stock fared during the last two stock market plunges.

The stock suffered a ~35% peak-to-trough drop during the tech bubble burst and the Financial Crisis. And if you'd held onto your shares through the turmoil, you would have done well, as the stock swiftly rebounded in just over one year after hitting the bottom. During this time, you would have collected your fat dividend, while many other stocks slashed theirs.

Rising interest rates are negative for the sector, but is a ~20% drop in Canadian Utilities warranted?

I don't think so. Interest rates are one reason why utility stocks have plunged, but there are many other factors contributing to the downfall as well. One, I believe, is the fact that many investors have grown overly bullish about the U.S. economy, which is red hot, and will provide global markets with a huge boost. When everybody is overly euphoric, investors shift their capital out of defensive sectors (like

utilities) and into higher-growth cyclical names.

If a market crash were to happen, Canadian Utilities would likely have much less downside when compared to your average non-utility stock. This leads me to believe that the margin of safety involved with purchasing shares at these levels is remarkably high.

Bottom line

At this point, I think Mr. Market has slashed prices on Canadian Utilities stock by a bit too much. Rates are moving higher — much higher — or so the general public believes. If rates don't go up as fast as everyone thinks, you'll get a once-in-a-lifetime opportunity to scoop up a premium utility whose dividend yield hasn't been this high in nearly two decades.

Some investors are worried that the February correction was a sign that the bear is about to come out of hibernation. And if that's the case, contrarians should be grateful for the opportunity Mr. Market has presented them with: a rock-solid defensive holding to ride out tough times at a vast discount to its intrinsic value.

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