2 Deeply Discounted Utility Stocks: Which Is Better Right Now?

Description

Utilities are good stock picks late in economic cycles. If the multi-year bull market tapers off, then investors can allocate more into utilities to generate yield income and stable growth.

Both **Emera Inc.** (TSX:EMA) and **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) had growing pains recently due to unforeseen natural disaster or costs of rolling out infrastructure. I believe both will get their moment in the sun and potentially lead a TSX comeback. Which is better now?

Favouring Emera

Throughout much of February and March, Emera insiders scooped up more shares for $40 and $42 per share. CEO Christopher Huskilson — who has been at the helm since 2004 — was one of the heavy insider buyers, and this bodes well for shareholders. I don't want to over-hype the insider activity, but insiders are simply much more knowledgeable shareholders, and the share price drop is an opportunity to invest more personal wealth in the company.

Despite Algonquin's share price drop of 9.2%, there is no equivalent insider action by its management.

One point Emera.

Emera's dividend is currently 5.5%. This edges above Algonquin by a small margin, as Algonquin has a dividend of 4.6%. Both Emera's and Algonquin's dividends have been stable and growing over many years. Emera's dividend increases about 10% per year. One cautionary note is that Emera's dividend-payout ratio has crept up recently and now exceeds 100%. I believe this is an aberration, however, as the poor earnings was due to operation challenge in Florida and the Caribbean.

One point Emera.

Favouring Algonquin

Algonquin provides diverse energy exposure with a lower debt-to-equity ratio compared to Emera. In a rising interest rate environment, debt is a concern, even for utilities, where borrowing is commonplace.

Money that services debt counts against the free cash flow levels. (*Mini-rant:* a company should not borrow more to pay dividends.)

One point Algonquin.

The forward price-to-earnings ratio (fwd P/E) for Algonquin is currently 17. This price multiple is slightly higher than Emera, but historical fwd P/E tend to always be higher for Algonquin. At these levels, Algonquin is 24% below a typical forward multiple, whereas Emera is 20% below. This gives the edge to Algonquin when it comes to fwd P/E.

One point Algonquin.

Algonquin has two preferred shares (series A and D) that pay healthy yields, the share price is currently below par and will reset to par roughly within the year. This is a less volatile way to invest in Algonquin's green energy.

One point Algonquin.

Algonquin may have put in a bottom finally. During the week of March 16, roughly 10 million Algonquin shares were traded, and the share price ticked up a sizable 3.4%. Pushing the share price up during high trading volume is a positive sign, in my opinion.

No points just yet!

There are more points for Algonquin, but both are solid picks. Still can't decide?

iShares S&P/TSX Capped Utilities Index ETF (TSX:XUT) has both Emera and Algonquin as holdings in this utility basket ETF. You pay a 0.55% management fee per year for this ETF, but this is a small cost when considering the sector-wide diversification.

Take home

There are three ways to invest in these utility stocks. Foolish investors should keep a watchful eye as this sector rebounds to deliver long-term investment success.

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1. Dividend Stocks
2. Investing

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1. Editor's Choice

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bmacintosh