2 Utility Stocks to Mitigate Market Volatility

Description

If there is one certainty in 2018, it's *uncertainty.* Market volatility isn't expected to subside any time soon and investors should mitigate the associated risks. One way to protect yourself is to buy stocks with low betas. These stocks are considered relatively low risk and measure a stock's volatility in relation to the market. A beta below one is indicative of a stock that is less volatile as compared to the market. In other words, the stock's price swings are less pronounced.

The utilities sector has long been considered a safe haven in times of volatility. They can provide investors with a level of stability due to the regulated nature of their business. Here are two growing Canadian utility companies to improve the risk profile of your portfolio.

Acquisitions spur growth

Algonquin Power and Utilities Corp. (TSX:AQN)(NYSE:AQN) operations are organized across three business units consisting of Generation, Transmission, and Distribution. Algonquin's portfolio is a rare blend of renewable energy and regulated assets. It has hydroelectric, wind, thermal and solar power facilities, and sustainable power distribution businesses. The company's low beta of 0.35 implies that it's less volatile than the market.

In 2017, Algonquin purchased Missouri-based Empire District Electric for $4.3 billion. The acquisition added an additional 1, 326 megawatts of generating capacity. It was also largely responsible for the company's 50% revenue growth in 2017.

In early March, the company finalized its joint venture (JV) with Spanish company Abengoa, S.A.. The new JV will develop clean energy and water-infrastructure assets. As part of the deal, Algonquin paid Abengoa US$608 million for a 25% stake in **Atlantica Yield PLC** (NASDAQ:AY). The Atlantica stake is expected to be immediately accretive to Algonquin's earnings and cash flow per share.

Outperformance to continue

Fortis Inc. (TSX:FTS)(NYSE:FTS) is one of the largest regulated utility companies in North America. Fortis owns one of Canada's most impressive dividend growth streaks at 44 years. The company anticipates growing dividends by 6% through 2022. Its beta of 0.24 is one of the lowest in the sector.

Fortis has consistently outperformed the **S&P/TSX Capped Utilities Index**. Year-to-date, it has not only outperformed the index, but has also been the best performing large cap in the sector. Similarly, only Algonquin has outperformed the company over the past three to five years. Fortis' 13.55% profit margin tops the industry and is almost double the industry average of 7.2%.

Investors can expect this outperformance to continue. Its current price-to-earnings ratio of 18.1 and price-to-book ratio of 1.3 are significantly below the industry averages of 31.8 and 1.8, respectively.

Add a little certainty to your portfolio

In the face of uncertainty, utility stocks are a great addition to your portfolio. Algonquin and Fortis have been two of the best-performing companies in the sector. They offer dividend and earnings growth and have some of the lowest betas on the index.

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