Algonquin Power and Utilities Corp. (TSX:AQN) vs. Fortis Inc. (TSX:FTS): Which Dividend Stock Is a Better Buy?

Description

Investing in energy utilities is a trusted approach to earn growing dividend income. What makes utility stocks unique when compared to other income-producing assets is their secure revenue streams and, in many cases, their regulated return models.

Let's have a look at **Algonquin Power and Utilities Corp.** (TSX:AQN)(NYSE:AQN) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) to find out which dividend stock offers the best value for your dollars today.

Algonquin Power

This Ontario, Oakville-based, diversified, generation, transmission, and distribution utility provides rate-regulated natural gas, water, and electricity services to over 700,000 customers in the U.S.

Through its clean-energy unit, the company runs a portfolio of long-term contracted wind, solar, and hydroelectric generating facilities, managing more than 1,250 MW of installed capacity. It generates about 70% of earnings from regulated utilities and 30% from contracted renewable power.

Its robust clean-energy operations make Algonquin a more valuable long-term bet at a time when developed nations are working to reduce their carbon emissions. Algonquin has grown through an aggressive acquisition strategy during the past few years. In its biggest deal so far, the company acquired Empire District Electric Co., a regulated electric, gas, and water utility with about 200,000 customers, for US$2.4 billion early last year.

In November, Algonquin announced its first deal outside North America, forming a joint venture with Spain's Abengoa SA to develop renewable energy and water infrastructure assets globally.

These acquisitions have positioned Algonquin to provide regular cash flows to investors in the form of dividends. It plans to hike its annual dividend 10% each year for the next five years.

Trading at $12.78 at the time of writing, Algonquin stock is yielding 5.1%, translating into $0.6-a-share annual dividend. After a recent pullback, the stock offers an attractive entry point to investors who are looking to add a stable dividend player.

Fortis

St. John's-based Fortis Inc. is another utility with a strong income appeal for long-term investors. The company provides electricity and gas to 3.2 million customers in the U.S., Canada, and the Caribbean countries, with its U.S. operations accounting for 59% of its regulated earnings.

Like AQN, Fortis also grew by acquiring assets globally. Fortis bought ITC Holdings Corp., a Michigan-based electricity transmission company, for US$11.3 billion, partnering with Singapore sovereign wealth fund GIC Private Ltd. This diversification limits the downside risk for Fortis cash flows, which grew 46% in the most recent quarter.

With an annual dividend yield of 4%, Fortis stock is down 14% from the 52-week high amid a general sell-off in the utility space as interest rates rise in North America. Trading at $41.74 at the time of writing, Fortis offers a good entry point to income investors to earn a 6% dividend hike, which the company plans to offer through 2021.

Which stock is a better buy?

Both utilities are suitable for income investors who plan to keep them in their portfolio over the long term. Splitting your investment amount equally won't be a bad idea. If you have to pick one of these stocks, then Algonquin's 5% dividend yield looks more attractive.

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