



Here Are 2 of the Best Utility Stocks to Buy and Forget

Description

Utility stocks make for some of the most impressive long-term investments, and both **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) and **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)) can offer investors both a lucrative income stream as well as intriguing growth prospects.

Why invest in utilities?

As great as utility investments are, they continue to earn a less than favourable reputation among investors owing to the nature of their [misunderstood business model](#).

Utilities provide a service to the communities that they serve, and the amount of that utility service, as well as the compensation the utility earns, are stipulated into long-term agreements, known as power-purchase agreements (PPA) Because of the regulated nature of the agreement, utilities effectively have a stable, secure, and recurring source of revenue to rely on for the duration of the contract, which can span two decades or more.

That stable stream of revenue permits the utility to invest in growth, reward shareholders through a handsome dividend, or, in some cases, both. Unfortunately, many investors perceive that handsome dividend to mean that there is little room for growth.

Let's look at both Fortis and Algonquin and see how these two behemoths can benefit your portfolio.

Fortis Inc.

Fortis has a well-diversified portfolio of facilities that are located in the U.S., Canada, and the Caribbean that provide a stable and recurring source of revenue, 92% of which is regulated through PPAs.

One way that Fortis differs from many other utilities is in the company's approach to expansion. Fortis has taken an aggressive stance to expansion, acquiring increasingly larger players in the market to fuel earnings and coverage growth. The most recent major acquisition by Fortis was the \$11.3 billion acquisition for ITC Holdings which completed two years ago. That acquisition provided a lift to earnings

and introduced Fortis to several new U.S. state markets.

Fortis shines as an income investment thanks to its quarterly dividend, which provides investors with a handsome 4.09% yield. If this weren't reason enough, Fortis is one just a handful of companies that have an established history of annual dividend hikes that goes back over four decades; the most recent hike came last fall. The current dividend is \$0.425 per share.

Fortis currently trades at just over \$41 with a P/E of 17.53.

Algonquin Power & Utilities Corp.

Algonquin is another utility that holds [plenty of potential](#) for both growth and income-minded investors. Oakville-based Algonquin provides distribution, generation, and transmission services across electricity, water, and gas elements to over 750,000 customers in more than a dozen states.

An interesting point worth mentioning in relation to Algonquin is how the company already has a sizable renewable energy portfolio of over 35 facilities that are scattered across Canada and the U.S. with solar, thermal, wind, and hydro elements that are provided through its Liberty Power subsidiary.

This is an important distinction that puts Algonquin at an advantage over its peers that still have predominately fossil fuel-burning facilities, and existing fossil fuel-burning facilities are more than likely to be replaced with clean energy facilities.

In terms of a dividend, Algonquin offers a quarterly dividend that pays an impressive 5.19% yield. From a growth standpoint, Algonquin has offered seven consecutive years of annual dividend hikes, and there's no reason to suspect that trend should end any time soon.

Algonquin currently trades at just over \$12.50 per share.

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Author

dafxentiou

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