Canadian Utilities Limited (TSX:CU) Is Undervalued: Is it a Buy?

Description

Trying to navigate energy stocks in this economy is like trying to pick your way through a minefield. A lot of people may be telling you right now that energy is the most stable of utilities on the TSX, and while those folks are technically not wrong, there are some stocks that are better to have than others.

It also really depends on your game. If you are investing for retirement or looking to line your TFSA, you will want a healthy stock with a good track record of paying dividends. If you're looking to buy low and sell high and consider yourself a keen market-watcher, you may want a riskier, asset-heavy stock that's set for exponential growth.

Let's take a look at some examples.

Double your money or go for the slow drip?

We'll start with a potential money-doubler. **Canacol Energy Ltd.** (TSX:CNE) has a huge growth spurt ahead of it and is worth taking a gamble on, even if its current performance doesn't quite do it for you. Investors in Canacol are looking at the company to double its earnings down the road, rather than keep them in dividends, so go for this one if you like a gamble.

More of a RRSP investor? **Canadian Utilities Limited** (TSX:CU) is an undervalued dividend stock that might be just right for the energy segment of your portfolio. A forward yield of 5.08% is nice and healthy, and it might even make this stock one for your RRSP. It's not an obvious choice, but that's just one of the things that makes this a smart pick.

RRSP investors might prefer this Canadian energy stock

Or then again, you could go with **TransCanada Corporation** (TSX:TRP)(NYSE:TRP). This is an investors' favourite with a good track record for paying dividends. Add in a P/E of 15.2 times and you have a good-value energy stock. Another factor that makes this a solid choice is that TransCanada is looking at a 10.8% earnings-growth spurt, which makes last year's return on assets of 6% look all the more favourable. Add in a forward yield of 5.15%, and you might just have a winner for your retirement fund.

In short, look to either Canadian Utilities or TransCanada for a stable dividend and a possible contender for a TFSA stock to compete with the best on the TSX. They're both solid and have good track records, with enough cash on hand to cover their assets.

While all three of the above can be considered growth stocks, go for Canacol if you're more of a market player than a retirement investor and you're looking to place a bet on very high growth.

The bottom line

You're really looking at three very different plays with these stocks. TransCanada is your classic dividend stock, expansive and hungry, while Canadian Utilities is more of an all-rounder, with acquisitions less of a focus than overall health. Then you have Canacol, which is a buy-low sell-high investor's dream.

In it for the long haul? Go for TransCanada or Canadian Utilities — or pick both, since they do slightly different things. Or go with Canacol for mid- to long-term sell-off gains.

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