Better Utility Stock for Your TFSA: Fortis Inc. (TSX:FTS) or Emera Inc. (TSX:EMA)?

Description

The Bank of Canada is expected to hike the benchmark interest rate for the second time today, which could impact key sections of the economy in the second half of 2018. Utilities have been some of the hardest hit over the course of this tightening period. Rising bond yields have hurt sentiment for utilities stocks, which had become one of the top income vehicles since rates were lowered after the financial crisis.

Investors should expect more fireworks in the second half of 2018, which will likely drive the Bank of Canada to take a dovish tone, even if it does move rates upward. The return of volatility should also inspire investors to seek income in the second half of 2018. Utilities have faltered over the past year, but the two we will look at today boast a wide moat and the promise of continued capital growth.

Which one should you stash in your TFSA today? Let's take a look.

Fortis Inc. (TSX:FTS)(NYSE:FTS)

On June 12, I'd discussed why it would be a good time for investors to stack Fortis after the stock took a hit in May. Shares have climbed 3.4% over the past month as of close on July 10. The stock is still down 8.6% in 2018, and it is trading more than $6 off of the all-time high it reached in November 2017.

Fortis is expected to release its second-quarter results on July 31. In Q1 2018, net earnings increased to $323 million, or $0.77 per share, compared to $294 million, or $0.72 per share, in the prior year. The company reaffirmed its commitment to its ambitious $15.1 billion five-year capital-expenditure plan, which is expected to boost earnings going forward.

Fortis last announced a quarterly dividend of $0.425 per share, representing a 3.9% dividend yield. The company has posted 44 consecutive years of dividend growth.

Emera Inc. (TSX:EMA)

Emera is a Halifax-based utility company. Shares have climbed 5.7% over the past month as of close on July 10. The stock is still down 9.6% year over year. Emera is expected to release its second-quarter results on August 10.

In the first quarter, Emera posted adjusted net income of $202 million compared to $152 million in the prior year. Operating cash flow increased to $444 million compared to $348 million in Q1 2017. Emera's high debt ratio remains a concern going forward, though the company has managed to raise $1 billion over the past six quarters to combat this problem.

Emera offers a quarterly dividend of $0.565 per share, representing a 5.2% dividend yield. The company has delivered 11 consecutive years of dividend growth.

Which is the better buy today?

Fortis remains my top utility in July with its incredibly strong history of dividend growth and solid financials in contrast to the debt troubles at Emera. Investors may want to wait for the stock to react to a potential rate hike, which could present a buy-low opportunity.

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