Dividend Investors: 2 Utility Stocks to Light Up Your TFSA

Description

Utility stocks have pulled back in recent months amid concerns that rising interest rates could tempt investors to shift funds to fixed income alternatives.

Higher rates certainly make GIC yields more competitive, and rising borrowing costs can put a dent in cash flow available for distributions, but the pullback in some utility names might be overdone.

Let's take a look at **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Innergex Renewable Energy Inc.** (TSX:INE) to see why they might be interesting picks.

Fortis

Fortis has grown significantly over the past 30 years, thereby increasing its assets from $390 million in 1987 to the current level of $50 billion. Today, the company is one of the top 15 utilities in North America with 1.3 million natural gas and two million electricity customers located in Canada, the United States, and the Caribbean.

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In total, Fortis owns 10 utility businesses, primarily operating in regulated environments, which means revenue and cash flow should be reliable and predictable.

The company is working through $15.1 billion in capital projects that should boost the rate base to $33 billion by 2022. As a result, Fortis expects cash flow to increase enough to support annual dividend growth of at least 6%.

Additional investment opportunities exist across the asset base, so investors could see the dividend growth guidance extended as new projects enter the pipeline. Fortis has increased its dividend every year for more than four decades. The current distribution, paid quarterly, provides an annualized yield of 4%.

At the time of writing, Fortis trades for just under $43 per share. The stock was above $48 last November.

Innergex

Innergex is a renewable energy company with wind, solar, hydro, and geothermal power generation facilities located in Canada, the United States, Chile, France, and Iceland.

Through strategic acquisitions and organic developments, the company has grown its portfolio to 68 operating facilities with total net capacity of 1,725 MW. These include 37 hydroelectric facilities, 25 wind farms, four solar farms, and two geothermal plants.

Innergex just announced a $630 million deal to buy a 62% interest in five wind farms in Quebec. The deal will boost the company's net installed capacity by 366 MW.

This deal, the recently completed purchase of two sites in Chile and the ongoing construction of other developments should drive the company's net capacity to 2,500 MW by 2020.

Innergex pays a quarterly dividend of $0.17 per share for an annualized yield of 4.9%. The company has a strong track record of dividend growth and investors should see the trend continue as the asset base expands.

Innergex trades at $13.80 per share at the time of writing. The 12-month high briefly topped $15.50 last September.

The bottom line

Both Fortis and Innergex pay attractive and growing distributions. If you're looking for reliable income picks for your TFSA portfolio, these two companies deserve to be on your radar.

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