Looking for Income? Check Out This Beaten-Down Utility With a 5% Yield

Description

Even though rates have been creeping up, GICs alone aren't producing enough returns to meet many people's income needs. After all, guaranteed investments are only producing a little more than 3% interest for a five-year term. But these rising rates have had a side benefit that may be of interest for someone looking for some steady income. With rising rates, dividend stock prices have come down, meaning larger dividends for people who rely on the income.

But not every dividend stock is equally stable. The largest dividend payers are not always the best income providers over time, as many investors have been made painfully aware. A dividend that has gone over 7% due to a share price collapse can often, although not always, signal that a dividend cut may be on the horizon. Therefore, dividend investors looking for a more secure source of income would be better off owning companies that steadily grow their payouts over time.

Utility companies are a great place to look for steady, growing dividends. These companies often have predictable cash flow due to the regulated nature of their earnings. Since most individuals and businesses need infrastructure, such as electrical power and natural gas, to run their day-to-day lives and operations, it is highly likely that the businesses that supply these services will be around well into the future.

Fortunately, Canada has numerous regulated utility businesses that are publicly traded. Companies such as **Fortis** and **Emera** are utility companies that have dividends of 4% and 5.5% that has grown for many years, even decades in the case of Fortis. But probably there is one utility company trading at an excellent valuation that would be worth purchasing today. That company is **Canadian Utilities** (TSX:CU).

Canadian Utilities operates worldwide. It has various businesses, including natural gas and electrical transmission and distribution as well as water infrastructure and hydrocarbon storage. It continues to invest in infrastructure, with over $1 billion invested in capital growth projects in the first half of 2018.

This company has stable earnings from its multiple businesses. Over the past five years, the company has moved towards a more regulated business plan. In 2012 only 62% of its earnings were regulated, but today 99% of its earnings come from long-term, regulated, contracted operations.

Similar to Fortis, Canadian Utilities has been increasing its dividend regularly for decades. The current pessimism towards interest-sensitive stocks has reduced its stock price considerably, so the company now pays a dividend of around 5%. With its clear earnings visibility and long-term contracts, investors can be relatively certain that the dividend will remain stable and its growth will continue.

Keep in mind, though, that even though dividend growers in stable industries such as the utility sector provide steady, growing payouts, this does not mean they are not subject to capital loss. In fact, as was already mentioned, it is this capital loss that gives new investors the opportunity to buy these stocks at lower prices with higher yields. But if these businesses are held for the long term, they provide relatively stable dividends as well as the potential for capital growth over time.

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krisknutson