Contrarian Investors: 2 Canadian Utility Stocks That Look Oversold

Description

The pullback in the utility sector is giving contrarian investors an opportunity to buy some reliable dividend stocks at prices that could turn out to be super deals.

Let's take a look at two companies that might be attractive picks right now.

Canadian Utilities (TSX:CU)

Canadian Utilities operates natural gas distribution and electricity production and distribution assets with a heavy presence in Alberta.

The stock is down from about $39 a year ago to $31.50, bringing the share price near the five-year low of close to $30 it hit in late 2015. From that point, Canadian Utilities surged 40% to above $42 last summer, so you can see where the upside potential lies.

Alberta is undergoing a transition away from coal and is overhauling its pricing model for electricity to pay companies for capacity as well as the power they produce to encourage required investment in modern facilities. At the same time, a recovery in the energy sector bodes well for power demand and pricing, so the long-term outlook should be good.

Canadian Utilities is working through a $4.5 billion capital plan for 2018-2020 that is being directed to regulated utility and commercially secured capital growth projects. As the investments begin to generate revenue, cash flow should improve and support dividend growth.

The first half of 2018 generated weak results compared to 2017, and investors appear to be losing their patience. At this point, the stock might be getting a bit oversold and the 5% yield should be safe, so you get paid well to wait for better days.

Emera (TSX:EMA)

Emera is based in Nova Scotia, but has operations in Canada, the United States, and the Caribbean. The company's businesses include electricity generation, transmission, and distribution. Emera also has natural gas transmission and distribution assets.

Regulated businesses produce more than 75% of the net income, meaning means cash flow should be reasonably predictable and reliable. The non-regulated assets give the company the opportunity to generate higher revenue when weather conditions are favourable.

Emera has enjoyed a strong start to 2018. Adjusted net income for the first six months was $313 million compared to $269 million in the same period last year. Adjusted earnings per share came in at $1.35 compared to $1.27.

Emera continues to add strategic assets to drive growth. In Q2, the company confirmed plans to invest US$850 million in an upgrade of a power station in Florida. In addition, the company is investing in a 600 MW solar installation in the state.

The company recently raised the annualized dividend from $2.26 per share to $2.35 and is targeting annual distribution increases of 4-5% through 2021. The current payout provides a yield of 5.8%.

The stock has dropped from the 12-month high around $49 to about $40 per share. Rising interest rates and the company's decision to allocate more cash to the capital program have had an impact, but the pullback might be overdone.

The bottom line

Picking up unloved stocks at the right time can prove to be a very profitable strategy. In this case, you get paid a nice yield to hold the stocks while you wait for sentiment to change.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:EMA (Emera Incorporated)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/28
Date Created

2018/08/31
Author
aswalker