Buy These Utilities for Stable and Growing Income

Description

Regulated utilities offer stable, growing dividends. So, they're perfect for conservative investors with a focus on increasing income. Moreover, a higher interest rate environment has helped push these stocks to lower valuations. As a result, investors can get a bigger initial yield from them than before.

Fortis (TSX:FTS)(NYSE:FTS) is one of the publicly traded Canadian companies with the longest dividend-growth streak. It has increased its dividend per share for decades, and it just increased its fourth-quarter dividend by nearly 5.9% from $0.425 to $0.45 per share. This marks its 45th consecutive year of dividend growth!

The regulated electric and gas utility's stable growth is supported by its 10 utility operations across Canada, the United States, and the Caribbean. Fortis recently revealed a new five-year plan to invest $17.3 billion into the business from 2019 through 2023. This is up $2.8 billion from last year's plan.

It forecasts a three- and five-year rate base growth of 7.1% and 6.3%, respectively. As a result, it extended its dividend growth forecast of 6% through 2023.

At $41.86 per share as of writing, Fortis trades at a relatively cheap blended price-to-earnings ratio (P/E) of about 16.6. It hasn't traded at this valuation range since 2009.

Therefore, Fortis offers a big yield of 4.3%, which is at the high end of its 10-year yield range. Its sustainable payout ratio is estimated to be about 68% this year.

FTS Dividend Yield (TTM) data by YCharts. Fortis's 10-year yield range.

Emera Inc. (TSX:EMA) generates more than 90% of regulated earnings from its electric utilities and gas distribution operations. It also has unregulated gas-fired generation. It has about $30 billion of assets with about 2.5 million customers in North America.

The regulated utility plans to invest about $6.1 billion into the business this year through 2020, which it anticipates will support dividend growth of 4-5% per year through 2021.

Emera recently increased its fourth-quarter dividend by 4%. Its payout ratio is estimated to be sustainable at about 86% this year.

At about $39 per share as of writing, Emera trades at a relatively cheap blended P/E of about 14.6. It hasn't traded in this valuation range since 2009. So, Emera offers a big yield of 6%, which is the highest it has been in 10 years.

Investor takeaway

For stable, growing income, investors can consider Fortis and Emera today. They're trading at historically low valuations and offer above-average yields based on their historical yield ranges.

Fortis is a little more expensive, but is expected to offer a bit more growth than Emera over the next few years. However, Emera offers a bigger yield. Both stocks should deliver long-term returns of about 10% based on their recent forecasts.

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1. Dividend Stocks

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