2 Excellent Utility Companies With 7% Yields

Description

With all the high-yield utility companies ripe for the picking these days, it becomes not a matter of whether or not to buy, but rather which one. It is almost too easy to find dividend companies that are well off their highs that pay attractive dividends.

I can remember a couple of years ago people talking about how high-yield stocks will lose value once interest rates rise. Well, that time has come, so investors need to sort through the wreckage to find ones they want to buy.

As far as utilities go, it isn't too hard to find stocks that yield north of 5%. It is even possible to find a number of them that are in the 6% range with the potential for future dividend growth. Two names that are worth looking into are **Capital Power** (TSX:CPX) and **Inter Pipeline** (TSX:IPL).

Both companies have dividends that are around 7% — dividends that are growing over time. Although both are considered utility companies, they are drastically different in terms of their businesses, so it is worth looking into their individual profiles before making a purchase.

IPL operates oil and gas pipelines in Western Canada and has storage operations in Europe. The company has 7,800 kilometres of pipelines, which it uses to transport approximately 1.4 million barrels of the commodity per day.

There are 16 European storage petroleum and petrochemical storage terminals with a capacity of 27 million barrels. Its European business is a relatively new addition to the overall company's business model and should help it to diversify away from a sole reliance on the Canadian market.

Its dividend of over 7% is extremely attractive for income-focused investors, especially since it is paid out on a monthly basis. This already high dividend is being raised annually as well, with the latest increase being 1.8%. While this is not as large as other increases in the past, it still represents a continuation of its decade-long history of dividend increases.

The company's dividend is supported by strong financial performance. Funds from operations (FFO) increased by 11% in Q3 over the same quarter of 2017 and net income was up 19%. Even with the high dividend, the company maintains a stated payout ratio of 55%.

Capital Power also is a utility sporting a high yield, but that is basically where the similarity stops. This company is a clean energy producer, essentially the antithesis to the oily IPL. The company acquires, owns, and operates 4,500 megawatts of power generation capacity at 24 facilities throughout North America.

The company's yield of just under 7% is paid out on a quarterly basis. The yield has been growing over time at a compound annual growth rate of 7% over the past five years. The company has a large amount of its income contracted out for several years, providing significant stability in its cash flows.

The takeaway

As far as yield is concerned, both IPL and Capital Power have attractive yields that they have committed to grow over time. Both have relatively stable cash flows with long-term contracts that should lock in earnings to support those dividends. Both of the companies have a significant amount of debt — a major downside to any capital-intensive utility company. In fact, they are equally attractive at present on a dividend and financial basis.

The real difference comes down to what kind of international diversification you want and whether you want to own a fossil fuel company or a clean energy producer. They are both great to own and pay excellent dividends. But if you prefer to go with clean energy, it would probably be best to choose Capital Power as your high-dividend play.

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