Are Utility Dividend Stocks Coming Back in Style?

Description

Market participants have not been kind to the TSX utilities sector over the past year. The sector peaked in June of 2017 and began drifting lower, giving up 20% of its value before finally hitting bottom in October of this year. Looking closer at the charts, there is now some reason for optimism about the sector's future.

The October low appears to be the completion of a massive 'Head and Shoulder' pattern which began back in mid-2015. This is a classic formation indicating that the latest four-year cycle has ended and we are now in the early stages of a new cycle. Some caution is required at this point since, in my experience, "VEE" bottoms are often not "THE" bottom and there is a chance the sector may re-test the October low in the coming weeks. Nevertheless, the sector is currently outperforming the general market and this a unique opportunity to get in early on a move that should provide growth and dividend income in the coming months.

Head and shoulders above the rest?

Two stocks worth looking at right now are **Emera** (TSX:EMA) and **Fortis** (TSX:FTS) (NYSE:FTS). Emera, headquartered in Halifax, has a market cap of $10.123 billion with a current dividend yield of 5.45%. Fortis has its headquarters in St John's. It has a market cap of $19.726 billion with a dividend yield of 3.91%.

Both companies are constituents of the S&P/TSX Composite Low Volatility Index. Only the 50 least volatile stocks of the broader TSX Composite index are included in this index. Low volatility with high dividends is a nice combination for those who are past the age where being violently jostled is enjoyable!

As a bonus, both stocks are currently outperforming the S&P/TSX Utilities Index and the broader market. Emera began the year at $47.19, fell to a low of $38.40 in October and has since risen steadily to $43.46 at the time of writing. Down for the year but a gain of 13% since its low, Fortis has bounced off its four-year average three times in 2018 forming a quasi-triple bottom. It has risen dramatically from its $41.11 October low to close at $46.24 at the time of writing, for a gain of 12% in the last month.

A good time to buy!

In terms of seasonal performance, Emera has performed slightly better than Fortis in December but neither displays any strong seasonal tendencies in the last month of the year. Both, however, have been strong performers in January. Emera has gained ground in January five of the last six years, this year being the only exception. Since 2013, January has been Emera's best month of the year with an average gain of 2.1%. Fortis has performed slightly better than Emera in January with an average gain of 2.2%; however, it also posted a loss this year in January.

In conclusion, Emera and Fortis are two low-volatility, high-dividend members of a sector that is currently outperforming the general market and are showing strong momentum as they enter a period of strong seasonal performance. Personally, I'm considering selling one of my gold miners to make room in my portfolio for one of them…

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Date
2025/07/03
Date Created
2018/11/28
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