RRSP Investors: This Reliable Utility Dividend Just Hit 5%

Description

Canadian Utilities Limited (TSX:CU) is huge. With assets of $21 billion and more than 5,000 employees, its stock has been compounding impressive returns for shareholders since 1995.

After falling from its all-time highs set in 2017, its dividend yield just surpassed 5%. If you're looking for a reliable way to earn some income, this is the stock for you.

Slow and steady wins the race

Canadian Utilities operates a slew of boring businesses, but that doesn't mean they don't generate exciting levels of profit. You can separate the company's businesses into three groups: electricity, transportation, and corporate.

On the electricity side, the company has a wide range of power generation assets, complemented by transmission and distribution segments located in both Canada and abroad. The transportation businesses largely deal with pipelines and liquids. For example, Canadian Utilities operates natural gas distribution assets, as well as storage for industrial water applications. Finally, on the corporate side, the company operates several businesses that provide energy to retail consumers.

This broad, diversified set of businesses have created stability few other companies can match. In fact, Canadian Utilities has the longest track record of annual dividend increases of any Canadian publicly traded company, dating as far back as 1972. Now at $1.69 per share, the dividend yield is just above 5%.

Here's the secret sauce

While utilities have earned a well-deserved reputation for stability, not all utility stocks are equal.

For example, many utilities operate in deregulated markets, meaning that they sell energy directly to the grid, often at wholesale prices. This arrangement can bring big profits, but also deprives the company of a predictable income stream, as the utilities in regulated markets can rely on multiple levels of guarantees.

For example, a regulated utility often delivers power on long-term contracts, which can range as long as 10 or 20 years. Several factors are often guaranteed, including a minimum rate base and annual pricing increases. These characteristics provide a rare level of predictability for utilities operating in regulated markets.

In 2013, Canadian Utilities had a rate base of $8.9 billion, of which 65% was considered regulated. That year, it needed to invest $2.3 billion to sustain its operations, leading to $190 million in earnings. Since then, the business has gone through a dramatic evolution.

Last year, the company's rate base exceeded $13 billion, of which 99% was fully regulated. The company only needed to reinvest $1.2 billion to generate earnings of $318 million. For the first time in over a decade, returns on equity exceeded 12%, well above the utility industry average.

The perfect stock for RRSP investors

When saving for retirement, capital preservation is key. Over the decades, millions of savers have stashed away cash for years, only to see their wealth cut in half with retirement in sight. With a stock like Canadian Utilities, that's unlikely to happen, especially with 99% of its operations now fully regulated.

A recent drop has pushed the yield up over 5%, providing an attractive entry point for investors looking for stable income without sacrificing long-term growth.

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rvanzo