



Are These 2 Utility Stocks Still on Sale?

Description

A few short months ago, people were dumping their rate-sensitive stocks in anticipation of rising rates. Practically every stock in the sector was driven to 52-week lows. As rates crept up, you could finally invest in one-year GICs at whopping high-interest rates of 2.5% to over 3%. A five-year at similar time period could yield well over 3%, a pretty astounding amount considering the puny, sub-1% GIC rates of recent history. Enthusiastic investors worldwide were betting that we would be experiencing rising rates for some time.

Even the Bank of Canada was in on the action, forecasting a return to what they labeled a “neutral rate” in the range of 2.5%-3.5%. At that level, GICs would begin to become competitive with dividend-paying stocks. But as we know, all good things must come to an end, and the Bank of Canada has once again decided to put rate hikes on hold, punishing savers and rewarding highly-leveraged risk takers.

Now for the good news

The good news for people who actually like to save money, however, is that any investor who had the presence of mind to doubt continuously rising rates has probably done quite well. If you started to lock in a ladder of 1-5 year GICs and purchase defensive dividend stocks when everyone was tossing them aside, you are probably doing rather well right now.

Take the stable utility stock, **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)), for example. This is probably one of the most “boring,” publically-listed stocks in the entire Canadian market. But since dropping to a 52-week low of under \$41, the stock has climbed almost 18%. It also has a dividend yield of about 3.75%, [a dividend](#) that has grown for decades. The last raise of 5.9% continued this trend in late 2018.

Emera Inc. ([TSX:EMA](#)) is another dividend superstar that was hit even harder than Fortis. Last year, Emera dropped to a 52-week low of around \$38 a share. It has now climbed around 20% to reach a share price of around \$47 a share. This stock also possesses a [dividend yield](#) of just under 5% at the current share price. This dividend has also been growing at a steady clip with a recent increase of 3.98%.

Aside from their dividends, these stocks are growing their businesses as well. Fortis increased full-year revenues by 1% and basic earnings per share by over 11%. Emera experienced full-year revenue growth of 4.78% and increased annual adjusted earnings per share by 17%. Benefitting from primarily regulated earnings, both Fortis and Emera will likely continue to grow earnings and revenues slowly and steadily over the coming decades.

So should you continue to buy these stocks today?

While market timing can be extraordinarily difficult, sometimes the market offers you an opportunity that on a risk to reward basis is too amazing to resist. In late 2018, this was certainly the case. While it was entirely possible that rates would continue to rise and dividend stocks would continue to decrease in value, recent history has shown that central banks would be far more likely to be cautious than aggressive. This has certainly proven to be the case.

Furthermore, the yields on these stocks had grown to such a high level as stock prices fell. In the case of Emera, the yield reached 6% and Fortis' grew to over 4%. Yields like that they were simply too attractive for long-term income investors to ignore.

Unfortunately, this is no longer the case. The increase in the share price has decreased the attractiveness of these stocks in the near term. Generally, I prefer to buy most income stocks, including utility companies, when their yields push over 5%, although Fortis is one that I don't mind purchasing when the yield is just over 4%.

If you don't own either of these stocks, I'm sure that the erratic central banks will give you another chance to buy sometime in the future. Nevertheless, you could still buy a few shares today and wait for the next bout of irrational selling to give you a great opportunity to own these income superstars.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:EMA (Emera Incorporated)
3. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/07/27

Date Created

2019/03/09

Author

krisknutson

default watermark

default watermark