2 Utility Stocks Whose Dividends You Can Rely On

Description

The utility sector is one of the best for dividend investors. Utility companies offer goods whose demands aren't very sensitive to price changes and tend to have above-average dividend yields. Let's turn our attention to two utility companies whose stocks income-oriented investors should strongly consider buying: **Emera** (TSX:EMA) and **Fortis** (TSX:FTS)(NYSE:FTS).

Emera

In addition to offering a nice dividend yield of 4.81%, Emera shows several signs of dividend sustainability. The company's operations are geographically diverse, with ventures in Canada, the U.S., and various Caribbean countries. Emera's operations in Florida show particularly strong growth prospects.

TECO Energy — a Florida-based energy utility company Emera acquired four years ago — expects to invest heavily in solar energy development over the next few years. Florida will likely be one of the nation's leaders in solar energy, despite the southern state lagging behind other states. In other words, Florida is ripe for growth in this sector, and TECO Energy is poised to benefit.

A large chunk of the capital required to fund Emera's growth opportunities will come from the sale of some of its current assets. The company will shed power-generation facilities that produce low margins, which will strengthen its financial stability. Furthermore, Emera's focus on improving its balance sheet is a good sign. The company expects its debt level to decrease to 55% by 2020 from its current level of about 60% (down from 64% in 2016).

Emera expects to grow its dividends by 4-5% annually while keeping its payout ratio in the mid-70% range. Investors can expect Emera to make good on its dividend growth, as the company improves its operations and generates an increasingly higher income.

Fortis

Fortis's portfolio somewhat resembles that of Emera: the company has operations in the U.S., Canada, and the Caribbean. Fortis is also in the habit of growing its revenue base by way of acquisitions. The company has made several major acquisitions over the past few years that have contributed to earnings growth.

In 2016, Fortis acquired Michigan-based company ITC Holdings for $11.3 billion. The move propelled Fortis in the top 15 of the largest American public utilities by enterprise valuation. The acquisition also helped Fortis diversify its operations by allowing the company to break into several U.S. states.

Breaking into the U.S. was an important step for Fortis. The company now expects its subsidiaries in various U.S. states to provide more growth opportunities. If history is any guide, Fortis should keep rewarding its shareholders as the company improves its financial results largely as a result of its shrewd acquisitions.

Fortis has raised its dividends for more than 40 straight years. The company expects to maintain dividend increases of about 6% through at least 2022. Over 90% of the company's revenues come from power-purchase agreements, which means Fortis's revenues are stable and predictable. The company currently offers a yield of 3.68% and a payout ratio of 66.6%.

The bottom line

Emera and Fortis both offer dividend investors stable dividend increases backed up by steady earnings growth. These stocks — like many in the utility sector — are also less risky than the average, which makes them strong prospects for your portfolio's defensive needs.

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