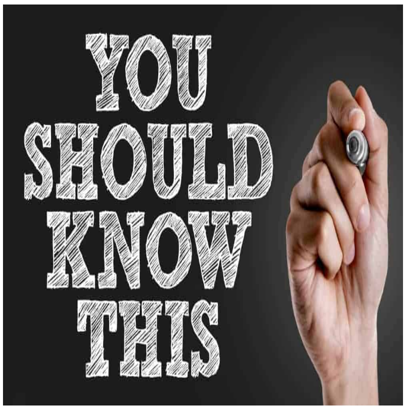

Recession Fears? Don’t Sell This All-Star Utility

Description

Dividend stocks are back in the saddle again. Canadian stocks have been shooting upwards since their 2018 end-of-the-year lows, leaving investors with profits of 20% or more in only a few months. Now, with interest rates on hold and the inverted bond yield curve signaling recessions might be on the way for both the United States and Canada, people are becoming cautious once again. Interest rates might be on their way back down, meaning that dividend stocks are in demand once again.

Back in October through to December, I began to purchase shares of **Canadian Utilities Ltd.** (TSX:CU). This company had been on my buy list for a couple of years, but it had always been too expensive. Finally, the stock went down to around the $30 mark and I began to pick up some shares. I had thought that I would hold this stock for the long haul, collecting its growing dividends as I waited.

But the approximately 20% made in capital gains in such a short period keeps calling to me. After all, if I wait those gains could soon be lost for any number of reasons. Interest rates could start to rise again, for one thing, driving dividend stocks back down. The company could mess up somehow, causing the price to fall. Or maybe some new technology, like cold fusion, will come along, eliminating the need for one of CU’s core businesses.

All these thoughts keep pestering me, tempting me to sell. But the truth is, this company is worth holding for the long run in spite of those potential pitfalls. I bought this company for reasons other than capital gains, and those reasons still hold true.

The dividend is amazing

After all, Canadian Utilities is a perfect fit for me as a steady dividend grower. At that time, the stock was yielding over 5%. With the yield that high at that entry point, and the possibility of more raises to come in the future, this stock seemed like a good one to lock away for years. After all, with 47 years of dividend increases under its belt, this utility company is unlikely to stop raising its dividend in the years to come. The recent 2019 increase of around 7.5% to its payout certainly supports this assumption.

Besides, those dividend raises are well supported by its steady operational results and diversified business model. Its pipelines, electricity and transmission, and energy storage businesses are stable and in high demand. In Q3 2018, for example, its 99% regulated earnings increased 40% over the third quarter of 2017. Revenues increased by 6% year-over-year, confirming the steady growth this company offers income seekers.

The long-term growth history is compelling

Even without considering the dividends, Canadian Utilities has gained steadily over the years. A long-term investor who had bought shares at the beginning of the millennium would have experienced capital appreciation of around 250%. While this is not exactly the huge capital gains you receive from a high growth tech or cannabis stock, it is excellent, solid growth that complements the dividend increases. After all, the capital gains are a bonus, it is really for the income that you bought the stock.

It hedges against a recession

While it is no means a certainty, it is possible that there will be a recession in the coming years or even months. If this happens, your capital will probably be somewhat conserved as investors pour into the stock to gain some income while they hide from the worst of the economic downturn. These are not GICs, so there is no guarantee, but given the recent historical trends, it’s highly likely Canadian Utilities will be a safe haven investment for many income-seeking investors.

Hold the line

I want to sell. I really do. Those quick capital gains are so tempting. The fear of capital loss is stronger than the possibility of future gains. If you’re like me, tempted to sell these early 2019 winners like Canadian Utilities, remember why you bought them in the first place. If it was for cash generation, then continue to hold for the long term. Collect the growing yield and enjoy the capital gains as a bonus.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:CU (Canadian Utilities Limited)

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