3 High-Yield Utility Stocks at 52-Week Highs

Description

Value investors often scout the 52-week-low list to identify out-of-favour stocks. Looking at the 52-week-high list can seem counter-intuitive, but there's a lot to be gained.

Just because a stock is shooting higher doesn't mean that it isn't undervalued. Often, price increases don't fully reflect how much conditions have improved.

In recent months, shares of multiple utility companies have shot higher, including **ATCO** (TSX:ACO.X), **Canadian Utilities** (TSX:CU), and **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN).

Are these stocks ready to run even further?

Benefit from volatility with ATCO

I first wrote about ATCO back in 2016, concluding that its "underlying fundamentals have almost always proven strong." The stock rose 25% over the following six months.

While the share price has come back a bit, investors have still been rewarded with both a higher share price and an annual income of 4%. The most recent run has pushed the dividend yield down to 3.6%, but there are plenty of reasons to stick around.

The past five years have brought an unusual amount of volatility for what remains an attractive business. The concern has involved ATCO's coal segment, which once contributed more than one-third of its power generation. Over the next decade, however, management plans on bringing that exposure down towards 10%.

Shares aren't terribly cheap after the recent run-up, but keep an eye on this stock. If coal concerns reappear — a high probability — it should provide yet another attractive buying opportunity.

Canadian Utilities is a better bet

While Canadian Utilities trades at a similar valuation to ATCO, its dividend yield is more attractive at 4.6%. It also comes with a similarly impressive track record. Since 1995, the stock has returned more than 600% when including dividends, with significantly less volatility than the TSX index.

What makes Canadian Utilities so attractive today? The market seems to be punishing the company for a shift in strategy, but Canadian Utilities has evolved to become one of the most stable stocks on the market today.

In 2013, its rate base was around $9 billion. Roughly one-third of that rate base was considered unregulated, meaning the company was exposed to swings in input costs and prevailing electricity rates. Over the next five years, management flawlessly executed a plan to reduce earnings volatility.

In 2018, the company's rate base hit $13 billion. Nearly 100% of earnings are now fully regulated. The market isn't appreciating these moves, but if a bear market hits, investors will be ecstatic that they stuck with Canadian Utilities.

Algonquin continues to impress

I named Algonquin Power & Utilities my top RRSP dividend stock for 2019. Shares rose by more than 10% in the following 90 days, but this run is far from over.

In each year over the past decade, Algonquin stock has never finished in negative territory. With a 4.6% dividend, long-term investors are also earning an income that is nearly twice the TSX average.

While only 75% of its business is regulated, Algonquin has a growth engine that the other two stocks on this list don't have: clean energy.

Recently, Algonquin began a nearly $8 billion spending plan that should fuel EBITDA growth by 15% annually. With ramping cash flow, executives believe they can grow earnings and dividends by more than 10% per year.

Algonquin shares have more risk and a higher valuation than Canadian Utilities and ATCO, but its growth trajectory is much more attractive, with years of runway to go.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:ACO.X (ATCO Ltd.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:CU (Canadian Utilities Limited)

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