3 Great Stocks for Low-Risk Investors

Description

What will make great stock investments for low-risk investors? Businesses that generate stable earnings or cash flows, offer safe dividends, and have above-average stability should fit the bill.

Here are three great stocks for low-risk investors. These stocks are market leaders diversified across the energy, financials, and utilities sectors.

Enbridge (TSX:ENB)(NYSE:ENB)

Enbridge is the leading energy infrastructure company in North America. It has a market cap of about $100 billion and an enterprise value of about $176 billion.

Enbridge enjoys a low-risk business model that's perfect for low-risk investors. Its network of liquids and gas pipelines and gas utilities, which are largely regulated, allow the company to generate highly predictable cash flow. This means it generates stable and growing cash flow over the long run, despite volatility in the underlying commodity prices.

Enbridge stock has increased its dividend for 23 consecutive years. It last increased its dividend per share by 10% in Q1 2019. It aims to increase the dividend per share by 10% again in 2020. Since Enbridge anticipates distributable cash flow growth of 5-7% after 2020, investors can also expect dividend growth in that range for 2021 and beyond.

As of writing, Enbridge trades at about $49.50 per share and offers a yield of nearly 6%. Long-term growth of 5-7% implies long-term total returns of about 11-13% per year without accounting for the fact that the Enbridge stock is slightly undervalued.

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Royal Bank of Canada (TSX:RY)(NYSE:RY)

Royal Bank is the banking leader in Canada. It's one of the most profitable businesses on the TSX index. In the most recent quarter, the quality bank brought in record revenue of $11.6 billion — growth of 7% year over year. That resulted in net income of $3.2 billion, which is an increase of 5% year over year. On a diluted per-share basis, earnings increased 7% to $2.15.

Royal Bank had a strong capital ratio of 11.4% as well as enjoyed a high return on equity of 16.7%. So, the bank remains very well capitalized and has high returns.

Royal Bank stock's dividend is rock solid because of the bank's above-average, stable earnings generation and sustainable payout ratio. Even during the last two recessions, Royal Bank remained very profitable and paid dividends. Because of a payout ratio of less than 50% and estimated earnings growth of about 6% per year, investors can expect Royal Bank stock to continue increasing its dividend to roughly match earnings growth.

At about $106 per share, Royal Bank stock is fairly valued at a price-to-earnings ratio (P/E) of about 12.2 and offers a safe dividend paying 3.8% annually.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis is another low-risk stock and a favourite among dividend and retired investors. It's a regulated utility that generates very predictable and stable returns with inherent organic growth. Over the years, it has risen to become a top 15 utility in North America.

Last year, Fortis generated nearly $8.4 billion of revenue and more than $1.1 billion of net income. The utility has increased its dividend for 45 consecutive years — one of the longest dividend-growth streaks in Canada. Fortis is so predictable that management has already estimated dividend growth of 6% per year on average through 2023.

At about $50 per share as of writing, Fortis trades at a P/E of about 19.6, while it's estimated to increase earnings per share by about 4% per year. So, the stock looks to be on the expensive side. Its dividend is secure though; it's good for a yield of 3.6%.

Despite the diversified utility's high-quality and low-risk nature, investors should wait for a meaningful dip of about 10% before beginning to buy shares to increase their returns potential.

Foolish bottom line

Enbridge, Royal Bank, and Fortis are great, low-risk stocks that you can rely on for long-term returns and dividend growth. Since the market has run up (along with the stock prices of these stocks), it'd be less risky to buy them on dips if you can wait. If you must invest for dividend income today, you can buy some shares of Enbridge, which offers the best value of the three.

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2. NYSE:FTS (Fortis Inc.)
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