3 Utility Stock Picks for July

Description

Utility stocks are best known for their ability to resist bear markets and deliver regular income.

The stocks on this list fit those expectations. All of them have juicy dividend yields and a proven ability to withstand even the harshest market conditions. When the rest of your portfolio craters in value, these companies will likely experience little impact.

Utility stocks also have a secret weapon: long-term outperformance.

Over the decades, some utility stocks have proven capable of beating the market during both bear markets *and* bull markets. That's seriously the best of both worlds.

Which stocks make the cut? Let's find out.

Bet on growth

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) trades at a slight premium versus the industry, albeit for a good reason.

Over the last decade, shares have risen by more than 400%. That's the fastest rise of any company on this list. For 10 years straight, investors have experienced positive annual returns.

That performance has pushed the company's valuation up to 19 times forward earnings. Judging by management's expectations, it could be worth the price of admission.

"Over the next few years, management intends to spend billions of dollars to help grow EBITDA by 15% annually," I wrote recently. "Earnings and dividends are expected to grow more than 10% per year."

This growth is thanks to Algonquin's unique business model. Rather than choosing a fully regulated or fully deregulated approach, management opted for a mix of both. This provides consistent cash flow from the regulated business to support higher-risk, less regulated projects that could have big upside.

This is a great stock for those looking for the downside protection of a utility but don’t want to sacrifice long-term returns.

Old faithful

Canadian Utilities Ltd. (TSX:CU) has been delivering market-beating returns for decades. Since 1995, shares have risen by 600%. If you reinvested your dividends along the way, a $10,000 investment would be worth more than $100,000.

However, the last five years have presented a rare period of underperformance for the company. Since 2014, shares have dipped by around 15%. When including dividends, investors have just about broken even, but that’s still below the **S&P/TSX Composite Index** total return of roughly 20%.

The stock now trades at just 17 times forward earnings and sports a dividend yield of 4.6%.

Utilities rarely outperform when the stock market experiences a prolonged bull run. When troubles return, long-term investors will be pleased that they stuck with Canadian Utilities stock.

Making millionaires

Fortis (TSX:FTS)(NYSE:FTS) is a classic millionaire-maker stock. If you reinvested dividends, an investment in 1995 would be worth 1,500% more today.

That success has priced Fortis as the most expensive stock on this list, at 20 times forward earnings. The dividend is just 3.5%.

Why should you buy this stock? Compared to the better deals above, you should probably avoid Fortis, at least for now. Over the past 12 months the stock has popped by more than 25%, pushing it just out of fair value range.

However, if the stock shows any weakness, as it’s done over multiple summers in recent years, be prepared to pounce immediately. Fortis has a 99% regulated business, so weakness is rare. Keep an eye on Fortis shares and be prepared to capitalize on a temporary dip.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:CU (Canadian Utilities Limited)

5. TSX:FTS (Fortis Inc.)

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