2 Stable Utilities to Anchor Your Portfolio

Description

It may not be flashy, but everyone needs some defence in their portfolio. Even if you are a younger investor with a longer investing time frame and have a higher appetite for risk, you should still have some stability in your portfolio.

In order to find stable cash flows, the best investments are in defensive utilities that have regulated, long-term contracts. As concerns about global growth continue to ramp up, and more investors are considering safer investment options, utilities have been a hot sector.

Furthermore, with the wide expectation that interest rates will no longer be increased anytime in the foreseeable future, and a higher chance of a rate cut, utilities are the perfect place for investors to bide their time and see how the markets play out.

Two utility stocks to consider adding to your portfolio as a cash flow anchor are **Hydro One Ltd** (TSX:H) and **Emera Inc** (TSX:EMA).

Hydro one

Hydro one is an electricity transmission and distribution company. It has over 30,000 circuit kilometres of transmission lines, 98% of Ontario's transmission capacity. It reaches nearly 1.4 million end users. Approximately 52% of revenue comes from transmission, while nearly 47% comes from distribution.

It provides stable cash flows with 99% of its business being fully rate-regulated. It has no exposure to commodity prices and expects 5% compounded annual growth in revenue until 2023.

The 70-80% dividend payout ratio is an ideal range, meaning the dividend is very safe. It currently yields around 4.2%. The company has rallied recently because of the sentiment around interest rates. It expects its growing rate base will drive earnings and cash flow growth for the next five years.

Emera

Like Hydro One, Emera has a highly regulated portfolio with more than 95% of its business regulated. Its electrical utility assets are mostly all vertically integrated, which give it a great competitive advantage. The stable cash flows it provides can help to protect investors when other industries in their portfolio don't do as well.

It's a massive company with $32 billion in assets. In 2018 it did $6.5 billion in revenue, serving over 2.5 million customers; 65% of its earnings come from the U.S. Florida is its largest geographic area with 51% of the company's rate base.

The dividend currently yields an attractive 4.3%. Emera's targeting a 4-5% compounded annual growth rate (CAGR) in the dividend till 2021. This sounds appealing and is more than doable as the company has averaged a 6% CAGR since 2000.

It expects organic growth through investments and expects to invest over $6 billion in rate base by 2021. Emera believes the investments will help achieve earnings growth. The company is targeting 6-7% CAGR in EPS growth till 2021.

The company's major financial plans going forward are to tighten up the balance sheet and reduce leverage ratios, such as debt to cash flow. It has done well to strengthen its balance sheet in the past, reducing debt as a percentage of assets and increasing equity. By 2020 it's targeting debt of 55%, equity of 35% and the remaining 10% to be made up of preferred shares.

Bottom line

Both companies offer investors stability for their portfolio as these stocks will continue to provide cash flow throughout different market environments. The stable dividends which both yield over 4% are a great way for investors to collect cash while stabilizing their portfolio.

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