



2 Ideas to Stabilize Your Portfolio During Periods of Falling Interest Rates

Description

The utilities industry is an important industry to be invested in, especially if you believe that interest rates won't go higher, and that the economy may have peaked.

Interest rates are one of the biggest factors when it comes to utility companies, since their capital structure requires so much debt. Rising interest rates increases costs, which will ultimately always hurt the bottom line.

When interest rates have peaked, though, it usually coincides with a peaking economy, which creates an opportune time for investors to step in, as the interest rate risk has been minimized. In addition, the utilities industry tends to outperform the market in periods of negative or flat economic growth.

Utilities are also great because they operate in highly regulated businesses, which naturally creates a competitive advantage as the barriers to entry are substantial.

Two Canadian utility companies worth considering for your portfolio are **AltaGas** ([TSX:ALA](#)) and **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)).

AltaGas

[AltaGas](#) is a Canadian-based company operating in both Canada and the United States. It has three main business segments: midstream, utilities, and power.

Midstream includes natural gas gathering, processing, transmission, storage, and marketing. The company also provides clients with the ability to ship natural gas to Asian markets with its new Ridley Island Propane Export Terminal.

AltaGas expects a decent return multiple from the project that is expected to attract energy producers seeking higher netbacks. The midstream segment accounted for roughly 48% of company-wide earnings before interest, taxes, depreciation, and amortization (EBITDA) in the second quarter.

The utilities segment delivers natural gas to nearly 1.6 million customers, which include residential and commercial customers. It operates across five regions in the United States and accounted for almost 40% of the company's EBITDA in the second quarter. Its second-quarter EBITDA was up 72% year over year due mostly to the acquisition of WGL.

The power segment operates energy distribution and storage assets in Alberta as well as across numerous states in America. The power segment did about 15% of AltaGas's total EBITDA in the second quarter.

AltaGas's second-quarter earnings came in slightly below consensus, however, that was mostly due to timing of maintenance that would of otherwise been done later in the year. The company looks on track to continue its growth.

It pays an \$0.08 monthly dividend, which at current share prices yields almost 5%.

Fortis

[Fortis](#) is a utility holding company based in Canada with \$53 billion in assets, serving nearly 3.3 million customers in Canada, the U.S., and the Caribbean. 81% of its assets are electric, 16% are gas, and the last 3% is generation. The company has two million customers in its electric segment and 1.3 million for its gas.

Nearly 65% of Fortis's business comes from the United States. ITC, one of Fortis's more recent acquisitions, is an independent electric transmission company and the largest in the United States. The acquisition is still paying off and is a big opportunity for Fortis's long-run growth.

Its Canadian operations are generally more stable, offering lower-risk capital, which Fortis uses to fund dividend. The dividend is a \$0.45 quarterly dividend, which currently yields around 3.4%. Fortis has raised the dividend for 45 consecutive years now and in past 10 years has increased the dividend a whopping 73%.

These major dividend increases came all while Fortis was able to keep the payout ratio generally consistent in the high-60% to low-70% range. Fortis's target going forward is to continue to grow the dividend at a 6% rate compounded annually until at least 2023.

At a P/E of almost 22, Fortis is trading at the high end of its range; however, falling interest rates and uncertainty in the market has created the perfect storm for investors to buy up Fortis stock. The company's share performance will have a lot to do with which way interest rates move in the near term.

Bottom line

Both companies are excellent companies that have exciting plans for future growth. Whether you like AltaGas because it's smaller and presents a better growth opportunity, or Fortis for the stable cash flows and great assets, both are great additions to a well-diversified portfolio.

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