2 Cheap Utilities Stocks Paying Attractive Dividends

Description

If you're concerned about a recession, utilities are one of the top industries investors in which you should be overweight. Given that utilities are a non-discretionary need, the sector is highly defensive, as many of the contracts are long term and provide stable cash flows.

This makes the utility sector one of the best industries to protect your money during market downturns.

The best utilities stocks are those with a large percentage of their operations funding the dividend and a sustainable debt load as we head into more uncertain times.

Two utilities to consider adding to your portfolio ahead of the next bear market is **Capital Power Corp** (TSX:CPX) and **Boralex Inc** (TSX:BLX).

Capital Power

Capital Power is a power generating business that owns a number of assets and facilities that generate power from coal, natural gas as well as some green energy from wind and solar.

It's a medium-sized company with a market cap of roughly $3.3 billion. It has nearly 6,000 megawatts of power generation from its 26 facilities that span the continent. Roughly 900 of those megawatts are in development as future growth projects.

Its operations are highly stable due to its strong diversification and highly contracted cash flow.

Its assets are not only diversified geographically all across Canada and the United States, but it's also diversified by power source, with a number of generating stations.

Its business is highly contracted, with nearly 80% of its estimated 2019 adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) expected to come from contracted revenue.

From a valuation standpoint, Capital Power looks just as attractive as from a fundamental view. Its price to book is just over 1.0 times and its price to earnings ratio is roughly 11 times. This is extremely cheap, especially for a utilities company ahead of a recession.

Despite its stock being up roughly 10% so far this year, an investment today would still yield you roughly 6.3% from its dividend, which is also extremely attractive.

Boralex Inc

Boralex is more of a growth company and has aggressive plans for expansion over the next five years. It's comparable in size to Capital Power, with a market cap of roughly $2.0 billion.

Boralex is focused more on renewable energy, with wind, solar, hydroelectricity and thermal operating divisions. Its assets are located in Canada, the U.S and France.

The company has just over 2,000 MW of generating capacity, and is aiming to have at least 2,800 MW by 2023. In addition, it's also targeting to generate discretionary cash flow of between $140 and $150 million by 2023, which would represent a roughly 20% compounded annual increase from the company to make that happen.

These growth plans are exciting, and similar to many other growth companies, the opportunities come with a premium for investors, albeit a pretty small one.

The small premium in its stock price makes Boralex look highly attractive from a valuation point of view. For a growth company, its price to book ratio of roughly 2.3 times is extremely reasonable.

It also returns cash to shareholders in the form of a dividend that currently yields just under 3%.

The stock has had slightly better performance than Capital Power this year, currently up roughly 30% year to date; there is, however, still plenty of room left for Boralex to continue to increase.

Bottom line

Buying utility stocks is just one way to protect your hard-earned capital, while the market corrects and undergoes a downturn.

Finding high-quality companies with great management and an attractive dividend will leave you best off, especially if you can buy the stock cheap.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BLX (Boralex Inc.)
2. TSX:CPX (Capital Power Corporation)

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