Buy Canada's Only Dividend Super-Aristocrat Utility Stock to Transform $5,000 Into $28,000

Description

My regular readers know that I write about Canada's utility and pipeline companies quite often, because we are blessed with an abundance of well-run global energy powerhouses, whether it be renewable or traditional energy sources.

I have always been an advocate of making **Enbridge** a cornerstone of any long-term portfolio and then supplementing it with various top-tier niche renewable energy operators like **Algonquin Power**.

However, somehow I have never looked too favourably on another absolutely stellar long-term Canadian utility stalwart, but I figured I would really drop my biases and give the stock a fair shake over the weekend.

So, after a few hours of detailed research, I am happy to report that I now feel completely comfortable talking about how **Candian Utilities** (TSX:CU) is a worthy addition to any long-term portfolio.

A monster decade of returns

A smart investor who made a $5,000 "in-the-ground" investment in Canadian Utilities 10 years ago would have harvested a $28,000 bounty today, assuming reinvested dividends throughout that time period. That growth represents a monster 460% total return, or about 20% compounded annual return. There are extremely few stocks on the TSX, let alone conservative utility companies, that could boast about that kind of super-charged growth.

What is more, Canadian Utilities is the only dividend payer on the TSX that can say that it has had a 47-year streak of uninterrupted dividend growth. Let me repeat very slowly for effect: 47 years of dividend growth. This includes the Great Market Crash of 1987, the dot com bust of 2001, and the Great Recession of 2009.

Consistent “set-it-and-forget-it” earnings growth

Canadian Utilities has grown its adjusted earnings consistently for the last almost 40 years and set a new earnings record in 2018 of $607 million.

Not only that, but the upward trajectory continues in 2019, with the company delivering $308 million in adjusted earnings for the first half of 2019. If all goes according to plan in the second half of this year, the company is on track to set yet another earnings record in 2019.

This is the kind of “set-it-and-forget-it” type of stock that doesn’t cause investors to lose sleep. Rather, this stock is the Nyquil of investing. You feel warm and fuzzy, and it knocks you out for hours in its sleepy embrace.

So, what’s wrong with the company?

Canadian Utilities is a stellar investment, but there are a few areas where I feel the company could clarify its strategy and intentions, especially on its geographic expansion. Canadian Utilities’s footprint spans from Alberta, Yukon, the Northwest Territories to Mexico and Australia. There are two things that make me a little bit uncomfortable about this geographic mix.

First, it feels really spread out, especially the far-flung Australian operations. It is practically very hard to keep a corporate culture when people are 14 time zones away from the head office.

The second issue I have is that the company never quite figured out how to get into the U.S.

It is no surprise that the utility companies that doubled down on the U.S. the last decade or so have experienced tremendous growth, like Algonquin Power. Canadian Utilities consciously chose not to create a footprint in the crowded U.S. market, but as evidenced by its stellar shareholder returns, the company knows how to make money in geographies that are less obvious.

Its record earnings and dividend growth show that the company is an efficient converter or revenue to earnings to cash flow.

The Foolish bottom line

Canadian Utilities stock is currently trading at about $38, which is about 25% higher than the $31 it started the year at. The stock has run up significantly, but smart investors who look at the macro picture will realize that the stock price was at the same level in March of 2013, more than six years ago.

In these six years, the company has continued to grow its earnings and cash flow profile and has proven that its ability to grow its dividends consistently continues to stand the test of time.

Smart investors will keep a close eye on the stock price until the end of the year to see if short-term momentum fizzles out a bit before starting to nibble around $35 to experience top-quartile portfolio performance in 2020.

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Date
2025/07/02
Date Created
2019/10/29
Author
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