2 Utility Stocks Worth Buying in 2020

Description

Utilities have been terrific investments for decades. The proof is in the performance. Since 2006, the **S&P/TSX Capped Utilities Index** has healthily outpaced the **S&P/TSX Composite Index**, all while delivering a superior dividend yield. What's so special about utilities? Plenty.

For starters, utilities are, by definition, in a low-volatility business. From year to year, power consumption doesn't shift much, even during the deepest of recessions. In 2008, for example, power demand only slipped by a few percent. While other stocks fell by 50% or more, many utility stock *gained* in value. You simply can't find that level of stability anywhere else in the market.

Additionally, regulation has caused some companies to demonstrate even *lower* levels of volatility. How is that possible? Rate-regulated utilities have government guarantees on what they can charge customers. These guarantees come with price caps but, most importantly, include price floors. Regulated utilities often know years in advance how much they'll be able to charge customers. And because these utilities are sometimes the only game in town, they can also predict with high visibility what their profitability and cash flows will be.

Put simply, if you want protection from bear markets without sacrificing long-term upside, utilities are the way to go. Which utility stocks should you be buying for 2020? The following two picks are best positioned for the year ahead.

Going green

In 2018, **Canadian Utilities** (TSX:CU) posted a profit of $607 million — an all-time high. Record earnings helped the company bump its dividend to $1.69 per share, which is good for a 4.3% yield. When it comes to dividends, Canadian Utilities is as good as it gets. The company has increased the payout every year since 1972. That's a 47-year streak, the longest of any publicly traded company in Canadian history.

This year, roughly 86% of earnings came from regulated sources. The other 14% were tied to long-term contracted sources, so while not regulated, they demonstrate the stability and resiliency of regulated earnings.

This year, management positioned the company for success over the next few decades by selling its entire fossil fuel-generation portfolio, including several coal-fired and natural gas facilities, for $835 million. This newfound cash will help drive the company's renewables portfolio, which should have superior economics and reliability.

Staying green

Hydro One isn't going green because it already is. The company transmits and delivers some of the cleanest energy in North America. It controls 98% of Ontario's transmission capacity, which is dominated by nuclear, wind, solar, and hydro energy sources. Around 99% of its business is rate regulated, giving Hydro One one of the most reliable revenue streams in the industry.

Management recently unveiled a $10 billion capital expansion program that should increase the rate base by 5% per year without sacrificing rate-regulated revenue sources. Earnings growth should help grow the 4.2% dividend. This stock will never blow you out of the water, but it's a recession-proof business that employs thousands of Canadians while delivering clean energy plus both earnings *and* dividend growth. That's a rare collection of qualities.

CATEGORY

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TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

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