Is Fortis (TSX:FTS) Stock a Better Utility to Buy Than Emera (TSX:EMA)?

Description

Utilities are always a key portion of an investor's portfolio because the businesses are regulated and underpinned by stable cash flows.

This becomes even more true when uncertainty increases in the markets and when there is a heightened chance of a recession.

The reason utilities are such stable investments is the fact that the services they provide — electricity and gas to homes and commercial customers — are staples that people and business can't go without.

In addition, the regulated nature of the business virtually makes the cash flows completely stable.

At the very least, they make for great passive-income generators, but you can also find quality long-term growth if you invest in the right company, so let's analyze which is the better investment between two of the top utility companies in Canada: **Fortis** (TSX:FTS)(NYSE:FTS) and **Emera** (TSX:EMA).

Fortis

Fortis is a utility company that has 99% of its business regulated. Roughly 95% of its assets are located in Canada and the United States, with the other 5% in the Caribbean.

Fortis has a five-year plan for roughly 7% rate base growth from roughly $28 billion in 2019 to more than $38 billion in 2024. It's also targeting 6% dividend growth over the same period.

While that seems ambitious, it's not unlikely, given that it has increased its dividend for 46 consecutive years.

It plans to achieve this growth through an extensive investment program where Fortis plans to invest more than $18 billion, split between 43% transmission, 32% distribution, 7% in generation, and the other 18% in miscellaneous projects.

It's an extremely well-run business that is highly diversified and provides solid passive income.

The dividend, which I already highlighted has lengthy history of increases, yields roughly 3.6% today, and has a payout ratio of just 53% of its earnings, extremely sustainable.

Emera

Emera is primarily an electricity transmission, distribution and utility company, similar to Fortis.

Like Fortis, it also has operations in Canada, the United States, and the Caribbean, with roughly 87% coming from its Atlantic Canada and Florida operations.

It plans to spend nearly $7 billion from 2020 to 2022 to drive rate base growth. It expects its rate base to grow 7.3% through 2022, very similar to Fortis's planned 7% rate base growth through 2024.

Also similar to Fortis, it has a strong dividend with a history of increases. Since 2000, its dividend has increased at a compounded annual growth rate of 6%, and, going forward through 2022, it expects to grow the dividend by at least 4-5%.

Emera is a top stock, and long-term shareholders have continuously been rewarded. It has outperformed both the TSX and the TSX utilities index in the past three-, five-, 10-, and 20-year returns, with its 20-year returns north of 11.5% annually.

Emera's operations span numerous jurisdictions, giving it solid diversification and isolating it from political risk that regulated companies face.

Roughly three-quarters of the growth assets it is investing in going forward are electrical utilities with the other third being gas utilities.

It has achieved tremendous growth over the last few years, with its earnings per share growing from $1.96 in 2013 to $2.70 over the last 12 months.

The dividend, which yields 4.7%, is higher than Fortis's; however, it doesn't have the same strength in its payout ratio of earnings at more than 82%.

Bottom line

While both companies are two of the top utilities in Canada, with long-term, stable cash flows funding the dividend, and both are very similar, I'd give the slight edge to Fortis, given it has more flexibility, and investors should see slightly more growth.

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