Is it Time to Buy Stock in These 2 Utilities?

Description

Utilities are always a great investment, especially for passive-income seekers. It’s important to own utility companies for their reliability and stable earnings, which they then use to pay out their dividends.

Owning utilities, or any reliable company, for that matter, becomes even more important for investors, as the economy is starting to peak, because they do a great job in strengthening your entire investment portfolio to be as resilient as possible.

We are reaching the point in the economic cycle where the economy is essentially at full capacity, meaning a recession could likely be right around the corner, so this may be the perfect time to consider adding a utility or two to your portfolio, especially while they are still undervalued.

Two of the top utilities to buy on the TSX today are **Fortis** (TSX:FTS)(NYSE:FTS) and **Emera** (TSX:EMA).

Fortis

Fortis is an electric and gas utility company that has 10 utility operations that serve roughly 3.3 million customers in Canada, the United States, and the Caribbean.

Like many utilities, the main benefits for investors are gaining exposure to a company with strong operations that will consistently grow the dividend over time, increasing the passive income you are earning each year.

Fortis specifically is the perfect example, the company has 47 years of consecutive dividend increases, paying out a fair amount to investors all while continuing to grow its business and drive growth in shareholder value.

It keeps its payout ratio consistent between 65% and 75%, even while it's grown its dividend at a compounded annual growth rate (CAGR) of more than 5.5% since 2008. The dividend today pays out $1.91 annually and yields roughly 3.4%.

Going forward, Fortis issued a new five-year plan in its guidance. The company primarily wants to invest roughly $18.3 billion over the next five years, with more than 70% funded by the company's cash flow after the dividends have been paid.

While it expects to take on a little debt for this, Fortis has shown that it will still be in a position of financial strength with cash flow to debt ratios of more than 10%.

The capital is being used to fund small projects and large projects, with 80% of the money going to smaller projects that carry less risk for investors.

In its guidance, it also said it expects to grow its rate base by about 7% per year during the next five years as well as roughly 6% dividend growth per year over the same period.

At a price-to-earnings ratio of less than 16 times for a stable utility with nearly 50 consecutive years of dividend increases, and at a time when defensive stocks should be trading at a premium, Fortis is one of the top stocks you should consider adding to your portfolio today.

Emera

Emera is very similar to Fortis in that it's primarily an electric and gas utility company that serves customers in Canada, the United States, and the Caribbean and has 95% of its earnings coming from regulated investments to Fortis's 94%.

Emera has its own three-year growth plan, which sees it investing $6.9 billion to grow its rate base by an estimated 7.3% per year.

One main difference between the two is that Fortis is a lot more evenly diversified among its 10 different operations, where Emera has roughly 50% of its assets in Florida and more than a third of its assets in Atlantic Canada, so together those two regions make up a considerable portion of its total portfolio.

Similar to Fortis, it has a long history of dividend growth, with a CAGR of 6% since 2000 and a target to grow the dividend between 4% and 5% through 2022.

The price-to-earnings ratio is slightly higher than Fortis's at 19.7 times, but it's still priced pretty reasonably, and if you value a higher dividend more, you may want to pick Emera, as its dividend currently yields roughly 4.2%.

Bottom line

It's no surprise that both companies are included in the Canadian Dividend Aristocrats list, as the utility industry is one of the best industries you can rely on if your primary goal is to earn stable passive income.

Not only can you rely on the sustainability, but you can expect the income to grow year in and year out to continue to build and compound your wealth.

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2. TSX:EMA (Emera Incorporated)
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