1 Utility Dividend Stock You Must Buy

Description

The market pullback might give opportunities for purchasing stocks in the near future. Stocks that had risen to nose-bleed levels might soon be opportunities once again. This is especially true for core portfolio stocks such as utilities and telecoms, which have been on a tear for the past year, as rate cuts drove investors into these stable, high-yield stocks.

A general market pullback could be the remedy for outrageously priced equities. To prepare for the possibility of reduced stock prices, I have put together a list of core positions I would like to increase should the stock market suffer a significant market pullback.

I have written for that past several months about the fact that I had been reducing my positions in some of my traditional utility companies. This was due to the fact that these companies had increased greatly in price, making it time to rebalance. I hated to sell these dividend-growth machines, but with the market shooting higher, their valuations and the position size warranted a slight trim.

I will be keeping my eye on stocks like **Capital Power** (TSX:CPX) for an attractive entry point in the near future. I like this company as a long-term hold, since it is a power utility with predictable earnings, geographic diversification, and dividend growth.

Capital Power operates numerous, primarily renewable, power-generation facilities across Canada and the United States. Its diverse operations consist primarily of renewable sources such as wind, solar, and waste heat, although it does have coal and natural gas power facilities.

As an entry point, I prefer a yield at purchase of over 6% for Capital Power. Since Capital Power is a relatively smaller name by market capitalization, I demand a slightly higher yield for the relatively higher-risk name.

The growth in this company is still pretty fantastic considering it is a boring utility. Much of this has to do with the fact that Capital Power operates in the high-growth renewable energy business. This led the company to report great Q4 2019 results. Year over year, the company grew its revenues by 101% over the same quarter a year earlier. Basic earnings per share increased by a solid 30%.

The dividend on the stock is fantastic and has grown substantially over the past several years, powered by earnings growth. In July of 2019, Capital Power increased the payout by a solid, inflationbeating 7.3%. This continued a string of dividend increases that the company aims to continue, as its utility operations continue to grow.

Of course, stocks of this sort are purchased as defensive holdings, so they will likely not come down as hard as tech stocks. They may, however, fall considerably if the market continues to fall precipitously in the coming weeks, as good stocks are chucked into the gutter with the bad.

The bottom line

Although shares of utility companies will probably hold together better than growth stocks due to their defensive nature, they may still come down in a market washout. If they do fall in price, I will not hesitate to add more shares of Capital Power to my dividend portfolio. This is a great long-term hold for income investors, so keep an eye on it as the market falls.

CATEGORY

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1. TSX:CPX (Capital Power Corporation)

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