Income Investors: Sleep Easy With This 5% Dividend Stock

Description

Thanks to the recent market crash, income investors have a limited-time opportunity to buy durable businesses at a bargain valuation. In some cases, high-quality stocks that historically offered dividend yields between 2% and 3% now have payouts of 5% or higher.

One TSX stock in particular is now paying a 5.1% dividend, despite having the strongest dividend-paying track record in Canadian history. This is one of the most proven income stocks on the market, and the future looks bright.

If you want to lock in a high dividend yield and still sleep easy at night, take a close look at the following stock pick.

Income investors can celebrate

Canadian Utilities (TSX:CU) is a special stock. In many ways, it's an income investor's best friend. Shares have delivered 48 years of consecutive dividend increases. That's the longest stretch of any publicly traded Canadian company.

Through several recessions and global economic shocks, Canadian Utilities has not only been able to keep its dividend safe but also *raise* it along the way. What could possibly account for such stability and reliability? The secret lies deep within its business model.

As its name suggests, Canadian Utilities is a utility company. It delivers electricity and natural gas to customers in both Canada and abroad. These services are usually mission critical. During a recession, do you cut back on heating your home or running your refrigerator? If you're like most people, the answer is no. This generates stable demand throughout the economic cycle.

But the company has another secret weapon: rate-regulated earnings. This is an income investor's dream.

Utility stocks are often separated into rate-regulated and unregulated entities. Rate-regulated businesses have their rates set by government regulators. Unregulated businesses sell their electricity or natural gas on the open market.

During bull markets, unregulated utilities often outperform their rate-regulated peers. That's because it can take advantage of pricing upside. The rate-regulated competition is limited by capped price increases.

During bear markets, the opposite is true. Across nearly every downturn, some unregulated utilities have gone bankrupt. Rate-regulated utilities, meanwhile, sail through the volatility with almost no impact. That's because in addition to pricing *caps*, they also have pricing *floors*.

We're starting to get a clear picture of what makes rate-regulated utilities so resilient. Demand hardly dips during a recession, and pricing has government-mandated floors. With 86% of its business fully rate regulated, Canadian Utilities has proven a safe port in any storm for income investors.

How to profit

Due to its financial stability, this stock rarely goes on sale. But the recent market crash has pushed the dividend yield up to 5.1%. That's a steal considering the company will experience limited impacts to its business, even if the downturn persists throughout 2020.

If you're an income investor looking to buy dividend stock bargains, Canadian Utilities should top your list.

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1. TSX:CU (Canadian Utilities Limited)

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