3 Top Stocks Young Investors Should Be Buying

Description

Last month, I'd discussed why utilities were largely pandemic proof. Essential services have been a reliable target during this crisis, and this sector is no different. Typically, young investors are attracted to growth-oriented equities. Today, I want to discuss why owning utility stocks is a good idea for those with a long time horizon. Let's jump in.

Why utility stocks are perfect for young investors

Young investors should pursue long-term capital growth in their portfolios. However, it is also important to hold equities that will provide stability. The 2007-2008 financial crisis ushered in an era of historically low interest rates that has grown into a new normal. This has led to an investment and credit boom, but it has also hindered savers. Many fixed-income vehicles fail to even keep up with inflation. Fortunately, utility stocks offer long-term stability and solid income that young investors can count on.

Two utility stocks to hold in your portfolio

Emera (TSX:EMA) is a Nova Scotia-based utility. Its shares have dropped 5% in 2020 as of close on June 26. The stock has been flat in the year-over-year period. However, Emera is an established dividend payer and offers attractive value for young investors right now.

In the first quarter of 2020, the company reported net income of $523 million, or $2.14 per share. This was up from $312 million, or $1.32 per share, in Q1 2019. Cash flow also increased $84 million year over year to $502 million. Emera has also benefited from the weakening of CAD exchange rates. Emera last approved a quarterly dividend of $0.6125 per share. This represents a solid 4.7% yield.

Shares of Emera last possessed a price-to-earnings (P/E) ratio of 14 and a price-to-book (P/B) value of 1.4. This puts the stock in favourable value territory. Young investors should feel good about stashing this dividend stock for the long term.

Hydro One is a utility that boasts a monopoly in Canada's largest province, Ontario. Its stock has climbed 1.3% in 2020 so far. Shares last had a favourable P/E ratio of 17 and a P/B value of 1.5. Hydro One also offers a quarterly dividend of $0.2415 per share, representing a 4% yield.

Young investors: Target this future dividend king

A dividend king is a stock that has achieved at least 50 consecutive years of dividend growth. These are the kind of income-yielding equities that young investors should hold forever. The TSX does not yet have a dividend king in its ranks, but one top utility is on track to meet this goal in the 2020s.

Fortis (TSX:FTS)(NYSE:FTS) is a St. John's-based utility holding company. Shares of Fortis have dropped 5.1% in 2020 as of close on June 26. The stock has also been static in the year-over-year period. However, the COVID-19 pandemic has failed to impede its promising trajectory to the middle of this decade.

The company last increased its quarterly dividend to $0.4775 per share, which represents a 3.8% yield. Fortis has achieved dividend growth for 47 consecutive years. Its $18.8 billion five-year capital plan is expected to support growth in its rate base from $28 billion in 2019 to $38 billion by 2024. In turn, this will support annual dividend growth of 6% through the end of the forecast period. Fortis is well on its way to snatching up its well-deserved dividend crown.

Young investors can also rejoice that Fortis boasts a P/E ratio of 13 and a P/B value of 1.3. This puts the dividend beast in attractive value territory.

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