



Buy These 3 Utility Stocks for Stable Passive Income

Description

Utility companies provide essential services, such as electricity, natural gas, and water. So, these companies are immune to economic down. Amid the uncertain outlook, with signs of a slowdown in the economic recovery rate and rising COVID-19 cases worldwide, investors could strengthen their portfolio by adding these defensive stocks. These companies also pay dividends at a healthier yield.

Hydro One

My first pick would be **Hydro One** ([TSX:H](#)), which is involved in the transmission and distribution of electricity. With 99% of its revenue generated from rate-regulated assets, the company is one of the TSX's safe companies. Also, it is not engaged in capital-intensive power generation and is also immune to commodity price fluctuations.

Hydro One is the largest power distribution company in Ontario, with approximately 1.4 million customers. Also, it owns and operates 98% of the province's transmission capacity. Further, the company projects its rate base to grow from \$21.7 billion in 2020 to [\\$26 billion by 2024 at a 5% CAGR](#), supporting its future earnings growth and cash flows. So, despite the broader equity market's weakness, the company has returned 17.5% for this year.

Meanwhile, the company also pays quarterly dividends and has raised its dividends at a 4.8% CAGR since 2016. On August 10, the company had announced quarterly dividends of \$0.25. Its forward yield currently stands at a healthy 3.4%. Given its recession-proof business, strong growth prospects, and a healthy liquidity position, I believe Hydro One is an excellent buy amid the uncertain outlook.

Algonquin Power & Utilities

My second pick would be **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)), which operates a diversified portfolio of utility assets. It provides utilities, including electricity, natural gas, and water, to 807,000 connections across the United States and Canada.

Further, the company owns and operates renewable and non-renewable power generating facilities, generating 1.5 gigawatts of power. Meanwhile, 85% of the power generated from these facilities is sold through long-term contracts, which provides stability to its earnings and cash flows. The weighted average remaining life of these contracts stands at approximately 13.3 years.

Along with strong organic growth, the company also focuses on strategic acquisitions to accelerate its growth further. With liquidity of \$2.37 billion at the end of the second quarter and stable cash flows, the company is well-positioned to pay out its dividends and undertake its future acquisitions.

Algonquin Power & Utilities has increased its dividends at a compound annual growth rate (CAGR) of 9.3% in the last 10 years. Currently, the company's forward dividend yield stands at 4%. Meanwhile, the management expects to raise its dividends by 7% per annum over several more years. So, given its capital appreciation and healthy dividend yield, [Algonquin Power & Utilities would be a good buy](#).

Fortis

My third pick would be **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)), one of North America's largest electric and gas utility companies. It earns 99% of its earnings from rate-regulated utility businesses, which deliver predictable and stable cash flows. Meanwhile, the company plans to raise its rate base at a CAGR of 6% to \$40.3 billion by 2025. Thus, the increased rate base could support the company's earnings growth and dividend payouts.

Meanwhile, the company is also working on lowering its carbon emissions by 75% by 2035 from its base year of 2019. So, to achieve the target, it is exiting its coal generation and adding wind and solar power systems, which can generate 2,400 megawatts of power.

Moving to its dividends, Fortis has increased its dividends for 47 consecutive years. For the fourth quarter, the company has announced quarterly dividends of \$0.505 per share. Currently, the company's dividend yield stands at 3.7%. However, the management expects to raise its dividends by 6% annually until 2024.

CATEGORY

1. Energy Stocks

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1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:FTS (Fortis Inc.)
5. TSX:H (Hydro One Limited)

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