My Favourite Canadian Utility Stock Just Went on Sale!

Description

Utility stocks have been punished in recent months and for reasons outside of their control. In an era of low interest rates, you'd think the demand for such bond proxies wouldn't be as low as it is these days.

Ever since **Pfizer** pulled the curtain on its breakthrough, defensive dividend stocks have faded into the background. Many of them look ridiculously undervalued at this juncture. While most other investors would pay over 40 times sales to bet on the sexiest EV or cloud stock, I'd be more willing to follow Warren Buffett into hard-hit dividend stocks in industries that remain under pressure.

Warren Buffett likes dividends

Warren Buffett's latest 13F filing revealed fresh, large stakes in **Verizon**, a bruised telecom and **Chevron**, a hard-hit big oil player. Both Verizon and Chevron were classic Warren Buffett stocks that just so happened to be constituents in the **Dow Jones Industrial Average** (DJIA). Both were on the lower end of the valuation spectrum and had slightly swollen dividend yields.

While I do think there's ample value to be had in telecom and big oil, it's the utility sector that I believe holds the greatest risk/reward at this juncture. Investors are all about growth these days. Prospective returns seem low, and many people are more than willing to raise their risk appetite for a chance at greater returns.

As price-to-earnings (P/E) continue to swell, though, I'd say that those chasing excess returns with little consideration for the price paid are more likely to underperform the market averages versus the likes of contrarians scooping up battered defensive plays while their dividend yields and margins of safety are on the higher end.

Sometimes it pays to be contrarian. When it comes to **Fortis** (TSX:FTS)(NYSE:FTS), I think there's a strong case for buying the battered utility stock on weakness and not just for its juicy dividend yield.

My favourite utility stock

Fortis is one of my favourite bond-proxy-like plays on the **TSX**. I own shares and will continue to accumulate on weakness because I like a portion of my portfolio to be rock solid in the face of market turmoil. Sure, Fortis and its peers may be “unsexy” today, but once volatility picks up, and we fall into a correction, you’d want names like Fortis to help keep your portfolio’s head above water.

With Fortis, you’re not getting much in the way of surprises — a 4% dividend yield that’ll grow at a 4-5% annualized rate. That’s a far better deal than bonds, and with a valuation that’s now at the lower end, I think now is as good a time as any to punch your ticket into the stock for its low 0.27 five-year beta if not for its bountiful dividend.

A lower beta means FTS stock is more likely to trade in its own world rather than follow in the footsteps of the broader **TSX Index**.

The stock trades at 1.4 times book, which is way too cheap for the calibre of business you’re getting from Fortis. The dividend is well covered by operating cash flows and is likely to continue growing through and after this horrific pandemic.

Stay Foolish, my friends.

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