March 2021 Buy Alert: 2 Dividend Stocks on Sale for Income!

Description

Increasing bond yields may be what's driving certain high-yield utility stocks lower. Specifically, the five- and 10-year Canadian benchmark bond yield is about 1% and 1.5%, respectively. Some investors see bonds as a lower-risk way to earn income. Therefore, some capital could be rotating out of utility stocks like **Fortis** (TSX:FTS)(NYSE:FTS).

But Fortis stock provides juicier income than bonds

If you're looking for an income investment for the next five to 10 years, there's no reason not to like Fortis stock at current levels. Its dividend is attractive. And it has a strong dividend track record of 47 consecutive years!

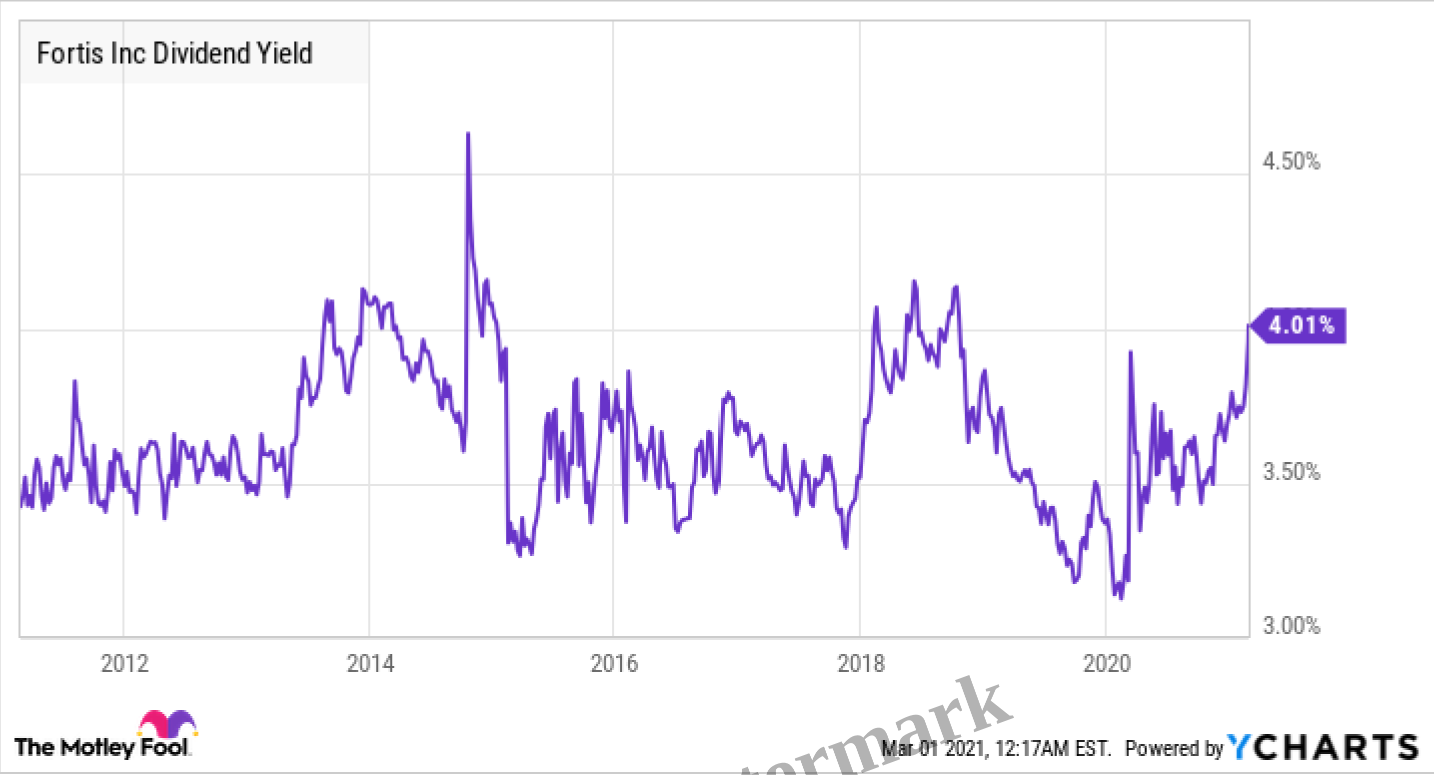
Fortis's dividend yield of 4.1% provides about 170% more income than the 10-year bond yield. Importantly, Fortis is a low-risk stock. The only concern investors should have is overpaying for the stock, which would lead to lower income and total returns.

However, the utility stock is trading at a good valuation today. At $49 per share at writing, Fortis stock trades at about 19 times last year's earnings, which is a fair price to pay. Because of the regulated utility's predictably growing earnings over the long haul, it normally commands a premium valuation.

Moreover, the dividend stock is planning to increase its dividend by about 6% per year through 2025. This growth will help income investors more than keep up with inflation and thereby maintain their purchasing power.

The utility has a five-year capital plan of $19.6 billion through 2025 that can drive rate base growth at a compound annual growth rate of about 6%.

Fortis stock's 4.1% yield is at the high end of its 10-year yield range, which also indicates that the stock is a good value.



FTS Dividend Yield data by YCharts. Fortis's 10-year yield history.

Want a +5% dividend yield instead?

If Fortis stock's +4% dividend yield isn't enough to entice you, you can check out its peer, **Emera** (TSX:EMA) for a bigger dividend yield. Emera's yield of close to 5.1% is approximately 240% juicier than the 10-year bond yield.

Both Fortis and Emera are regulated electric and gas utilities and generate more than 60% of their earnings in the United States. Therefore, Emera is also a low-risk stock that produces stable earnings.

Like Fortis, Emera has become an attractive low-risk income investment after the pullback. Analysts expect Emera stock to appreciate about 18% over the next 12 months from about $50 per share.

Similar to Fortis, Emera is also a Canadian Dividend Aristocrat. Specifically, it has hiked its dividend for 14 consecutive years. It aims to increase its dividend by 4-5% per year from through 2022.

Emera has a $7.5 billion capital program that can drive rate base growth of about 8.2% from 2020-2022.

The Foolish takeaway

Utility stocks like Fortis and Emera are great for investors looking for current income. They are suitable considerations for retirees, passive, or conservative investors who are looking for a stable stream of cash to flow into their portfolios periodically. Essentially, once you buy these types of stocks at good valuations, you can hold for the income and long-term price appreciation.

That said, you probably want holdings in your stock portfolio to move differently from one another to mitigate risks. However, Emera stock moves in tandem with Fortis stock because they're in the same space. So, don't buy both. Instead, consider using excess capital to diversify into other sectors or industries.

Data by YCharts. Emera stock and Fortis stock move in tandem with each other.

Keep in mind that rising interest rates could further pressure the dividend stocks. So, it would be more conservative to buy partial positions at a time.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:EMA (Emera Incorporated)
3. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn

4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/09/12
Date Created
2021/03/01
Author
kayng