2 Top Utility Stocks With Dividend Yields Over 3%

### Description

Utility stocks are excellent starter stocks for new investors. They can be low-risk investments that generate nice income with low volatility. Many dividend investors own utility stocks for their stable dividend income.

Two of the top utility stocks you can buy on the **TSX** are **Fortis** (TSX:FTS)(NYSE:FTS) and **Emera** ( TSX:EMA). They're primarily regulated electric and gas utilities that generate stable and predictable returns from their assets. Therefore, they pay safe and growing dividends. Right now, their dividend yields are well above 3%, which makes them way more compelling income investments than GICs. GICs pay low interest and only guarantee your principal. In contrast, you can expect price appreciation from utility stocks if you have a long-term investment horizon.



Let's explore the two dividend stocks.

## Fortis stock

It's simple why dividend and retired investors trust Fortis stock for safe and growing dividend income. The utility stock has increased its dividend through five recessions. This year's dividend hike marks its 48th consecutive year of dividend growth.

Even if you'd just bought Fortis stock in 2005 for an initial yield of 3.4%, your stake would have a yield on cost of over 11% today, because of the persistent dividend growth. That is, your original investment would make more than 11% every year from the dividend alone, irrespective of what the stock price does.

Fortis is a diversified leading North American utility. The utility's infrastructure assets are essential to the economies they serve. About 93% of its assets are transmission and distribution assets. It has 10 regulated utilities that serve approximately 3.4 million electric and gas customers. Fortis is the parent company of ITC, the largest independent U.S. electricity transmission company that operates in seven states under Federal Energy Regulatory Commission (FERC) regulation.

On October 29, the company will reveal its third-quarter (Q3) results and updated five-year capital plan through 2026. The recent pullback of about 6% is a good opportunity to pick up the shares for an initial yield of close to 3.9%. It would be even better if you can buy shares at or below $53.50 per share for an initial yield of 4% or greater. Doing so should nudge your long-term rate of return towards approximately 10% per year.

## Emera stock

Emera stock is another regulated utility that's a Canadian Dividend Aristocrat. This year marks its 15th consecutive year of dividend increases. This means it has survived two recessions while increasing its dividend!

The utility's dividend yield of about 4.5% is juicier than Fortis's. The story for an Emera investment in 2005 is similar. You would start with a yield of about 4.6%, which would grow to a yield on cost of more than 13% on the original investment thanks to the dividend increases.

Emera is a North American utility with a focus on Florida (about 58% of rate base) and Atlantic Canada (33%). It is also predominantly made of electric utilities (about 85% of rate base) and gas utilities (15%). Investors should look out for the utility's Q3 results that it will report on November 10.



## The Foolish investor takeaway

If passive income is what you seek, you can consider buying some shares of reasonably priced Fortis and Emera today. If you prefer a bigger margin of safety, see if you can scoop up shares on a further pullback.

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**Date**
2025/09/05
**Date Created**
2021/10/20
**Author**
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