Top Canadian Utility Stocks That Are Booming Right Now

Description

The Canadian utility sector is one of the bright spots in the **TSX Index** this year, as TFSA and RRSP investors seek defensive stocks that can ride out a recession.

TransAlta

TransAlta (TSX:TA)(NYSE:TAC) trades at $15.20 per share at the time of writing. This is the highest the stock has been since 2013.

TransAlta is an electricity generation company based in Alberta. The stock had a rough ride from 2008 to 2016 when the share price fell from $37 to below $4.50. Excessive debt and falling power prices forced management to trim the generous dividend that investors had relied on for years. This situation, along with negative sentiment towards legacy coal-fired power plants, sent the stock into a tailspin.

In the past six years, however, TransAlta has done a good job of getting its balance sheet in order through debt repayments. Power prices have improved, and TransAlta has converted its coal-fired plant to run on natural gas several years ahead of schedule. The dividend is on the rebound, and the share price has slowly drifted higher since early 2016.

TransAlta owns a majority position in **TransAlta Renewables** (TSX:RNW). The subsidiary holds the majority of the wind, solar, and hydroelectric assets and generates strong cash flow.

The rebound in the energy sector in Alberta is driving economic expansion and increased demand for electricity in the province. TransAlta recently put a share-buyback plan in place that will enable the company to repurchase up to 7.16% of the outstanding shares from May 31, 2022, to May 30, 2023. That's a good sign for investors.

TransAlta stock still appears undervalued right now when you consider the value of the RNW position and the remaining assets held at the parent company. In fact, it wouldn't be a surprise to see TransAlta become a takeover target. **Brookfield Asset Management**, for example, already owns 13% of the outstanding TransAlta stock. Sovereign wealth funds and alternative asset managers, as well as pension funds, are all seeking investments that provide stable cash flows while meeting ESG investing goals.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility with $58 billion in assets located in Canada, the United States, and the Caribbean.

The businesses include power generation, electricity transmission, and natural gas distribution operations that generate 99% of their revenue from regulated assets. This means cash flow tends to be predictable and reliable in most economic conditions. Fortis grows through a combination of acquisitions and development projects. The current $20 billion capital program will increase the rate base by about a third through 2026. This should drive revenue and cash flow high enough to support targeted average annual dividend increases of 6%. That’s good guidance in these uncertain economic times.

Fortis trades near $61 per share at the time of writing. That’s close to where it began 2022 and offers a solid 3.5% dividend yield.

The bottom line on top TSX utility stocks to buy now

TransAlta and Fortis are top utility companies in the TSX Index. If you have some cash to put to work in a TFSA or RRSP and are searching for defensive picks to ride out a potential recession, these stocks deserve to be on your radar.

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3. TSX:FTS (Fortis Inc.)
4. TSX:RNW (TransAlta Renewables)
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