3 Top Utilities Stocks for Your TFSA

Description

Utility stocks are in favour this year. Up 5.6% for the year, the **S&P/TSX Capped Utilities Index** is outperforming the market. In 2022, the S&P 500, the TSX, and the NASDAQ are all sitting on losses. Canadian utilities, however, are up.

Past results don't predict future results, but this year, utilities have demonstrated a well-known characteristic of theirs — namely, the tendency to outperform during economic downturns. Utilities are essential services based on long-term contracts. As a result, their revenue tends to be very stable, even in recessions. In this article, I will explore three Canadian utilities stocks that may be worth exploring in 2022.

Algonquin

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) is a smaller Canadian utility with a $12.5 billion market cap. It's based in Canada but mainly does business in the U.S., where it operates as Liberty Utilities. Liberty Utilities has two main groups: regulated services and renewable energy. Regulated services sells traditional energy sources like natural gas, renewables is focused on wind and solar power. Renewable energy is an important area of investment for utilities, as it is crucial to fighting climate change. Therefore, Algonquin's renewables business might get better treatment from regulators than utilities that focus on coal and other "dirty" energy sources.

Algonquin has grown impressively over the years. In 2021, its revenue reached $2.2 billion, up 36% from 2021. Its earnings unfortunately declined, mainly due to a big increase in electricity purchases. However, adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) rose 18% in the most recent quarter. Perhaps, then, AQN can return to positive earnings growth in the future.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility that has raised its dividend every single year for 47 years. Its stock currently yields about 3.6%, making it a high-yield dividend play. Fortis has not really grown much in the last few years: since 2020, its full-year earnings have only risen 2.3%. However, it has a solid 13% profit margin and a 79% payout ratio, suggesting that it can at least keep paying its current dividend.

Based on its historical trajectory, you wouldn't expect FTS stock to deliver enormous capital gains. However, it does offer a stable dividend that has the potential to grow in the future. Fortis's management is aiming for 6% annual dividend hikes over the next few years. It seems like the projected dividend growth is a little ahead of the growth in the underlying business, but the payout ratio is already well under 100%.

Canadian Utilities

Canadian Utilities (TSX:CU) is a Canadian utility stock with a 4.38% dividend yield. Its payout ratio is only 85%, so it is not pushing things too far with dividend payments. CU achieved positive growth in 2021. That year, it achieved 9.5% growth in earnings, which was better than Fortis and Algonquin in the same period. TSX utilities haven't exactly been delivering explosive growth over the last few years, but CU has been a little better than the class average.

CU's dividend track record isn't as long as Fortis's, and its growth hasn't been as good as Fortis's over five years. However, it has fared somewhat better than Fortis in the 2021/2022 period, so it may be worth a look.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton

2. kduncombe

Category

1. Investing

Date
2025/06/29
Date Created
2022/08/15
Author
andrewbutton