TFSA Investors: Steady Utility Stocks to Buy Now and Cash In for Life

Description

Utility stock: what's not to love about them?

Among the most stable dividend stocks out there, they offer you much of the passive income that bank stocks do but without the threat of a 2008-style financial meltdown.

Sure, utilities are boring, but that's exactly what makes them so valuable. Because of their "slow and steady" growth, utilities tend to deliver predictable returns and reliable dividends.

That doesn't mean you can't go wrong with utility stocks. Enron, the culprit of history's biggest accounting fraud, was a utility. Its investors didn't exactly get great returns. In order to invest profitably in utilities, you need to know how to analyze them — either that or buy a diversified utilities ETF. In this article, I will explore three utilities stocks that offer significant dividend income.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a St. John's based utility company. It offers electricity throughout Canada, the U.S. and the Caribbean. 99% of its assets are regulated utilities — a good thing because regulations provide high barriers to entry.

Fortis is famous for having raised its dividend every single year for the last 48 years. Most utilities are pretty consistent dividend *payers*, but not all of them have such consistent dividend *growth*. Fortis has both. Its goal is to raise the payout by about 6% a year for the next five years, which seems doable.

The company's current payout ratio (percentage of earnings paid as dividends) is 79%, which is a little high but not extremely high. Its annual growth in earnings per share has only been 2.6% per year over the last five years. Therefore, the dividend-growth goal appears to be a little ahead of the growth in the actual business. Fortis looks pretty good today, but be mindful of the payout ratio potentially rising too high in the future.

Algonquin

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) is a Canadian renewable energy utility that has a lot of things going for it. First, it's relatively small, which means it has a lot of room to grow. Second, its historical growth has been off the charts for a utility: revenue has grown at 16.7% per year, and earnings have grown at 12.6% per year over the last five years. Third, it's almost entirely focused on renewable energy, especially wind and solar, so it's less likely than other utilities are to face climate change-related issues.

One potential problem with AQN is severely negative earnings growth in the last year. For the trailing 12-month period, earnings declined 85%. That appears concerning, but remember that the five-year trend in earnings is still very strong. Also, the free cash flow (cash left to pay shareholders) actually improved in the last 12 months, so it's not all bad on the earnings front.

Duke Energy

Last but not least, we have **Duke Energy** (NYSE:DUK). This is a U.S. natural gas and nuclear utility that is well positioned for the future of energy. Like many utilities, Duke is a pretty slow-growth company. Its earnings have only grown by 4.5% per year over five years, halfway between Fortis and Algonquin. On the bright side, it is highly profitable, with a 15% profit margin (i.e., net income as percentage of revenue).

DUK's growth isn't bad, and its profitability is very good. However, the main reason for being interested in Duke isn't financials, it's what the company does. Duke is partially a nuclear utility, and nuclear energy is rapidly being embraced by the world as a solution to climate change. Renewables are popular, but they only supply 5% of the world's energy. Nuclear is a zero-carbon energy source that can power an entire grid. Duke Energy is already operating 11 nuclear power plants across North and South Carolina, and it has never suffered a serious safety incident. That makes it a green energy company with a proven track record.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:DUK (Duke Energy Corporation)
3. NYSE:FTS (Fortis Inc.)
4. TSX:AQN (Algonquin Power & Utilities Corp.)
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