



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

Description

If you're a Tax-Free Savings Account (TFSA) investor, utility stocks are among the best assets you can hold. Offering steady, dependable cash income, they can reward you for the rest of your life. The TFSA spares you taxes on all categories of assets, but the effect is most pronounced with income-producing investments, like bonds and dividend stocks.

With non-dividend stocks, you may not need a TFSA if you plan on holding for life. With dividend stocks and bonds, however, the TFSA saves you taxes every time the interest or dividend is paid. Utility stocks are ideal assets to hold in a TFSA.

In this article, I will explore three Canadian utility stocks that you can buy now and cash in for life.

Fortis

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is one of Canada's best known and most reliable [dividend stocks](#). It has raised its dividend every single year for 48 years and has plans for more dividend hikes in the future. Specifically, it is aiming for 6% annual dividend increases over the next five years. Over the previous five, FTS has grown its earnings by about 7% annually, so it has enough earnings growth to justify the hikes. Today, FTS stock yields 3.66%. If it makes good on 6% annual dividend hikes every year for the next five years, then the yield on cost (i.e., yield for the investor who buys today) will grow to 4.89%.

One risk to watch out for with Fortis is its high debt-to-equity ratio. A debt-to-equity ratio is a measure of how indebted a company is compared to what it owns. Fortis has \$19 billion in debt and \$16.6 billion in equity for a debt-to-equity ratio of 1.144. That's higher than average, so debt could be thought of as a risk for Fortis in an environment of rising interest rates like the one we're in today.

Algonquin Power and Utilities

Algonquin Power and Utilities ([TSX:AQN](#))([NYSE:AQN](#)) is another utility company like Fortis, this one focused on renewable energy. Incidentally, Fortis is technically a renewable energy utility too, as it

mainly sells hydroelectricity. However, Algonquin is investing in “new” renewables like wind and solar, which are being heavily incentivized by governments around the world. Although hydro power is technically renewable, it’s not really “green” power, as building a hydro dam usually involves tearing up massive tracks of lands and destroying green space. Algonquin’s solar and wind projects don’t have that disadvantage, so they are likely to get friendly treatment from governments going forward.

Wind and solar power are sometimes criticized as being unreliable, but Algonquin is doing well. It has a 39% gross margin (i.e., the ratio of gross profit to sales), which suggests decent profitability. Its net income margin — the more common profit margin that you learn in Accounting 101 — is 8%, which is not high but basically respectable. Algonquin Power and Utilities has grown its revenue by 16.3% and its earnings by 27% per year over the last five years. So, it has a good growth track record and decent profitability.

Duke Energy

Last but not least, we have **Duke Energy** ([NYSE:DUK](#)). This is a U.S. utility that invests in a wide variety of kinds of power generation from natural gas to nuclear power. It’s the latter type of energy that makes Duke Energy interesting.

Countries around the world have been re-considering nuclear energy in response to the Ukraine war. With the world in the midst of an energy crisis, Europe (among other places) has been loosening [nuclear regulations](#). If we enter a new nuclear energy golden age, Duke Energy will be perfectly positioned to grow, as it has the expertise needed to build and maintain nuclear power plants.

CATEGORY

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

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