Should You Buy Fortis Stock or Algonquin Power Stock for Safe Passive Income?

Description

Fortis (TSX:FTS) and **Algonquin Power and Utilities** (TSX:AQN) are two highly regarded utility stocks that produce attractive passive income. While both are solid utilities, they have different levels of risk and reward. Likewise, their growth and dividend profiles vary, so it is important to understand these differences before investing.

Fortis: A safe, stable anchor stock for passive income

Fortis is an anchor stock for the most defensive passive-income investors. It has a market cap of $18 billion. It operates 10 utility businesses across 17 jurisdictions in North America.

93% of its assets are focused on electricity and gas transmission/distribution. The remainder comes from power-generation/energy-storage assets. 99% of its assets are regulated, which means most of its cash flows capture a predictable baseline of returns.

For the past 10 years, Fortis has earned an average annual total return of 7.09%. It has one of the most enviable dividend-growth track records in Canada. It has increased its dividend consecutively for 49 years! This just speaks to the quality and longevity of its business.

Fortis is investing over $20 billion to continue to expand its transmission and distribution portfolio. From this, it hopes to grow its total rate base from $31 billion today to nearly $42 billion in 2026 (a 6% compound annual growth rate (CAGR). It expects its dividend rate to grow annually by a similar 6% rate.

After a steep 21% decline this year, this passive-income stock is trading with a 4.55% dividend yield. That is above its five-year average yield of 3.6%. Likewise, with a forward price-to-earnings (P/E) ratio of 16.7 times, Fortis has not been this cheap since the March 2020 market crash.

Algonquin Power: Higher passive income and higher risk

Algonquin Power and Utilities is just over half the size of Fortis. It has a market cap of $9.9 billion. 70% of its business comes from a diversified mix of electric, gas, and water utilities spread across North America, Chile, and Bermuda. The remaining 30% of revenues come from its renewable power business that has 4,200 megawatts in operation and 3,800 megawatts in development.

Over the past 10 years, Algonquin Power has earned shareholders an 11.66% total annual average return. While Algonquin's return track record is superior to Fortis, it has only delivered 13 years of consistent dividend growth. Since 2009, it has grown its dividend by an 8.8% CAGR, which is faster than Fortis.

Algonquin has $12.4 billion capital growth plan. It hopes to grow its rate base by a CAGR of 14% and earnings per share by a CAGR of 7-9% to 2026. Chances are good that its dividend will grow at a similar rate to earnings. Its anticipated $2.6 billion acquisition of Kentucky Power will hopefully help accelerate these targets.

This passive-income stock is down 26% in 2022. It has been significantly more volatile than Fortis stock. It trades with a 7% dividend yield today! That is significantly above its 4.4% dividend yield average. With a forward P/E of 13 times, it is certainly the cheaper stock.

However, it does have some higher risks. It has significantly more debt (8.5 times debt-to-earnings before interest, taxes, depreciation, and amortization versus Fortis's 6.3 times), and there is some concern that the Kentucky Power acquisition may not close.

What's a better buy? It depends…

Fortis stock is very attractive for defensive passive-income investors. It is not a high-growth entity, but it provides an attractive dividend-growth profile and modest, low-volatility returns. This is the ideal utility for retirees or those looking for a low-risk anchor in their portfolio.

Algonquin stock has been growing faster but has some elevated execution risk. If it can achieve its growth targets, investors will capture a high dividend yield, a faster dividend-growth rate, and likely higher capital upside. However, this stock has been volatile, and passive-income investors need to be comfortable with this.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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