3 Canadian Utility Stocks for Passive Income

Description

Utilities are considered relatively safe stocks to hold during times of market volatility. Most earn contracted or regulated streams of income, so they have a stable baseline of earnings. Likewise, their services are generally essential to society, so demand and usage are generally predictable.

Utilities are not exciting investments, but they are good anchors for earning safe passive income in a portfolio. Many utilities have pulled back in 2022, and you can buy them at attractive prices. Here are three top utilities that can provide a combination of growth, income, and safety if you have a long investment horizon.

Fortis: This utility stock is as safe as it gets

With 49 years of consecutive annual dividend increases under its belt, **Fortis** (TSX:FTS) is one of the most consistent Dividend Aristocrats in Canada. It operates a portfolio of transmission and distribution utilities across North America. 99% of its portfolio is regulated.

It has grown revenues and normalized earnings per share by a 3.5% compound annual rate over the past five years. Certainly, it is not growing quickly. However, the company does have a five-year $22.3 billion capital plan that is expected to grow its rate base by over 6% per year. Likewise, the company plans to continue growing its dividend by a 4-6% annual rate.

After a 17% drop in 2022, Fortis yields 4.2%. It has a modest amount of fixed debt, but maturities are staggered over several years. This stock is not going to rocket higher, but it will likely provide low-volatility, mid- to high single-digit total returns for several years to come.

AltaGas: A bargain-priced utility stock

AltaGas (TSX:ALA) is a hybrid between a utility and a midstream energy stock. Around 60% of its earnings come from a large regulated natural gas business in the United States. The remainder comes from a midstream business that provides gas gathering, processing, fractionation, storage, and marketing in Western Canada.

The midstream business is more volatile, but it does very well when energy prices are strong (like they are today). Demand for propane and liquefied natural gas have been extremely strong around the globe and that has helped provide very strong earnings in this segment. The utility business is attractive for its plan to grow its rate base by an 8-10% compounded annual rate for the coming four years.

AltaGas pays a 4.65% dividend today. It just increased its dividend by 6%. It plans to grow that dividend by 5-7% annually for the next four years. AltaGas trades at a big discount to both utility and midstream peers. It has steadily been lowering debt, which has further enhanced the long-term stability of its business.

Brookfield Infrastructure Partners: A defensive growth and income stock

If you want a diversified mix of essential infrastructure businesses, you can't find any better than **Brookfield Infrastructure Partners** (TSX:BIP.UN). Over the past decade, this utility stock has delivered a strong 14% compounded annual total return. In that time, it has grown its dividend by a nearly 10% compounded annual rate.

With Brookfield Infrastructure, investors get exposure to utilities, energy infrastructure, railroads, ports, data centres, and cell towers. Over 95% of its assets are contracted/regulated, and 70% have some form of inflation-indexed earnings potential.

The company has a strong balance sheet with excess liquidity to buy up more assets. It also has ample opportunities to invest in an accretive way in its current assets. It pays a 4% dividend today. Its stock is down 11% in 2022, and it looks like an attractive bargain today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:FTS (Fortis Inc.)

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robbybrown