



Top Canadian Utility Stocks of 2023

Description

Known for their defensive characteristics and [high dividend yields](#), Canadian utility stocks are great picks for bear markets. These large-cap stocks tend to possess lower volatility due to their highly regulated nature and evergreen demand.

Interested in finding the best Canadian utility stocks to add to your investment portfolio? Keep reading to find out!

What are utility stocks?

Utility stocks are the publicly traded shares of companies involved in the production and distribution of essential infrastructure services to the public.

They include, but are not limited to, water, natural gas, and electricity companies. These companies keep the taps in your house running, your lights on, your stove working, and provide heating in the winter.

Compared with the other 11 major [stock market sectors](#), utility stocks have a few traits that make them traditionally defensive investments. These include:

- Lower-than-average volatility compared with other sectors, and a lower-than-average sensitivity to the overall market's movement.
- Evergreen demand due to the essential nature of their services even during a recession, compared with more cyclical sectors like consumer discretionary or information technology.
- Consistent and more predictable earnings and dividend yields because the rates they charge can be regulated by the government or contractually guaranteed.

One weakness of utility stocks is their sensitivity to changes in interest rates. Many utility companies carry high debt loads due to their need to constantly maintain and upgrade infrastructure. This leads to a higher-than-average degree of capital expenditures. Rising interest rates make it harder for utility companies to access debt financing, which can hurt their margins and earnings.

Top Canadian utility stocks

Utility stocks in Canada can represent all [market capitalizations](#), whether small-, mid-, or large-cap. The most popular Canadian utility stocks tend to be blue-chip ones with larger market capitalizations. These companies usually have an established track record of profitable operations and many years of consecutive dividend increases.

Company	Description
Fortis (TSX:FTS)	Fortis is an electric and gas utility company operating across Canada, the U.S., and the Caribbean.
Emera (TSX:EMA)	Emera is a utility company engaged in the generation, transmission, and distribution of electricity worldwide.
Canadian Utilities (TSX:CU)	Canadian Utilities is an electric, natural gas, and retail energy utility company operating worldwide.

Fortis Inc.

Fortis generates and distributes electricity to a worldwide assortment of customers. In the U.S. market, Fortis serves over 500,000 customers in Arizona. The company also sells wholesale electricity to customers in the U.S. Domestically, Fortis serves over two million residential, commercial, and industrial customers in British Columbia, Alberta, Newfoundland, Ontario, and Prince Edward Island.

Fortis also maintains a presence in the Caribbean with customers in the Cayman Islands and Grand Cayman. The utility's power generation capabilities come from a combination of gas-fired, wind, hydroelectric, and solar sources. As an investment, Fortis is renowned for its 48-year streak of unbroken consecutive dividend payments and increases, making it a "Dividend Aristocrat".

Emera Inc.

Emera operates through multiple different subsidiaries to generate, transmit, and distribute electricity for clients across Canada, the U.S., and the Caribbean. It operates through segments dedicated to Canadian electric utilities, non-Canadian electric utilities, and gas utilities and infrastructure.

In terms of power generation, sources include coal-fired, natural gas and oil, hydroelectric, wind, solar, and biomass power plants. Emera also has some energy-sector-like characteristics due to its involvement in the purchase, distribution, and sale of [natural gas](#) and liquified natural gas (LNG). The company is known for increasing its dividend size at a strong rate of growth.

Canadian Utilities Ltd.

Canadian Utilities operates through three segments to deliver electricity, natural gas, and retail energy services to a worldwide base of clients. This includes the provision of electricity, natural gas, infrastructure such as pipelines, compressor sites, storage facilities, delivery points, and industrial water solutions.

Its clients are mostly Canadian, centred around Alberta, Saskatchewan, the Yukon, and the Northwest Territories, but it also has overseas clients in Australia, Mexico, and Chile. Like Fortis, Canadian Utilities is also a Dividend Aristocrat, having paid out and increased dividends consecutively for 50 years.

Investing in international utility stocks

Utility stocks aren't just found in the Canadian market. Investors seeking to diversify further can also look for utility stocks in the following geographies:

- The U.S. stock market, which includes companies listed on the New York Stock Exchange and NASDAQ.
- International developed markets, which includes Europe, the U.K., Australia, and Japan.
- International emerging markets, which includes Asia, Russia, Africa, South America, and the Middle East.

Keep in mind that purchasing international utility stocks might require you to convert currency. Investors can avoid this using Canadian Depository Receipts (CDRs) or by buying an [exchange-traded fund \(ETF\)](#) that holds international utility stocks.

Are utility stocks a good investment?

The answer to this question depends on your investment objectives, risk tolerance, and time horizon. In general, utility stocks are good investments for investors seeking lower volatility and higher than average dividend payments. This often includes investors who are on the verge of retiring or already retired. For these investors, ensuring safety of principle and a steady stream of consistent income is more important than ensuring absolute growth at all costs.

However, younger investors who are willing to tolerate more risk in exchange for higher possible returns may find utility stocks to be a bit boring during bull markets. In these scenarios, they might underperform higher-growth sectors such as consumer cyclicals or information technology. Despite their high dividend yields, investors should be careful to not use utility stocks as a replacement for low risk bonds as they still have market risk and can fall during a crash.

Regardless, utility stocks are an easy way for investors to start investing in the Canadian stock market. Because they are mostly large-cap blue chip stocks, they can be a useful way for investors to learn the ins and outs of how to hold a stock. A good way to use utility stocks is as the core of a defensive low volatility portfolio. With utility stocks, reinvesting their periodic dividend payments is key, as the compounded returns will greatly enhance long-term total returns.

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)
2. TSX:EMA (Emera Incorporated)
3. TSX:FTS (Fortis Inc.)

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