



Canadian Utilities (CDUAF)

Updated February 24th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	10.6%	Market Cap:	\$7.33 B
Fair Value Price:	\$27	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/02/2022
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date:	03/01/2022
Dividend Yield:	5.1%	5 Year Price Target	\$33	Years Of Dividend Growth¹:	50
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	1.0%

Overview & Current Events

Canadian Utilities is a \$7.86 billion company with approximately 5,000 employees. ATCO owns 52% of Canadian Utilities. Based in Alberta, Canadian Utilities is a diversified global energy infrastructure corporation delivering solutions in Electricity, Pipelines & Liquid, and Retail Energy. The company prides itself on having Canada's longest consecutive years of dividend increases, with a 50-year streak. Unless otherwise noted, US\$ is used in this research report.

On February 24th, 2022, Canadian Utilities reported its Q4-2021 results for the period ending December 31st, 2021. Revenues and EPS for the quarter amounted to \$1.02 billion and \$0.71 per share, indicating an increase of 29.1% and 115%, respectively, in constant currency terms.

Higher revenues were mainly due to improved performance at ATCOenergy resulting from higher electricity and natural gas commodity prices. Total revenues were also boosted by higher flow-through revenues in the Electricity Distribution and Natural Gas Distribution businesses, while the timing of prior-period costs recovered in the Natural Gas Distribution division contributed positively as well. The growth in EPS was mainly powered by higher earnings from the International Electricity Operations business and elevated inflation levels in Australia. Increased inflation positively impacted the International Natural Gas Distribution business's earnings while helping achieve cost efficiencies within the Electricity Distribution business.

Our initial estimates point towards FY2022 EPS of \$1.70. Further, Canadian Utilities increased its dividend for the 50th consecutive year by 1% to an annualized rate of C\$1.7768, which should equal close to US\$1.38 at the current FX rates.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.04	\$1.97	\$2.18	\$0.81	\$1.54	\$1.32	\$1.53	\$2.50	\$1.04	\$1.69	\$1.70	\$2.07
DPS	\$0.89	\$0.91	\$0.92	\$0.85	\$0.97	\$1.14	\$1.15	\$1.30	\$1.37	\$1.37	\$1.38	\$1.56
Shares²	255	255	258	262	265	267	269	272	272	270	270	350

By benefiting from a stable business model, Canadian Utilities can slowly but progressively grow its earnings. The company consistently invests in new projects and benefits from the base rate increases, which grow at around 3% to 4% annually. Last year, management had filed an application with the Alberta Utilities Commission to postpone Canadian Utilities' electricity and natural gas distribution rate increases. The company expects to receive the deferred revenues in early 2022. Combining the company's growth projects, the potential for modest margin improvements, and –as voluntarily pursued, – the postponed rate base increases, we retain our expected growth rate at 4%. Our DPS CAGR estimate remains at 2.5%. The company will likely improve its payout ratio before its new projects start producing enough cash flows to re-accelerate dividend growth. U.S. investors have enjoyed a lesser growth in their dividends than the Canadian ones over the past decade due to the depreciation of \$CAD to \$USD. Regardless, the stock's impressive 10-

¹ Years of Dividend Growth and Last Dividend Increase based in C\$.

² Share count in millions

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year dividend CAGR of 9.6% is more than enough to compensate for the FX fluctuations, progressively growing investors' income.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.4	17.5	18.1	19.3	20.9	18.3	18.2	15.0	22.9	16.5	16.1	16.0
Avg. Yld.	2.7%	2.7%	2.7%	3.4%	3.6%	3.5%	4.6%	4.8%	4.8%	4.8%	5.1%	4.7%

Canadian Utilities' shares are currently attached to a juicy dividend yield of 5.1%, offering attractive tangible returns in the form of quarterly income. The yield is also currently at the higher-end of the stock's historical range, which makes this legendary dividend payer the most attractive it has even been in decades from an income standpoint. The stock's current P/E ratio of around 16.1 is notably lower than its historical average. Considering the company's limited earnings growth expectations in the medium term, we can see the stock's valuation multiple remaining at its current low levels. However, due to achieving half a century of consecutive annual dividend increases, the high yield is more than likely to attract investor interest going forward. Hence, we don't expect the multiple to be compressed any further.

Safety, Quality, Competitive Advantage, & Recession Resiliency

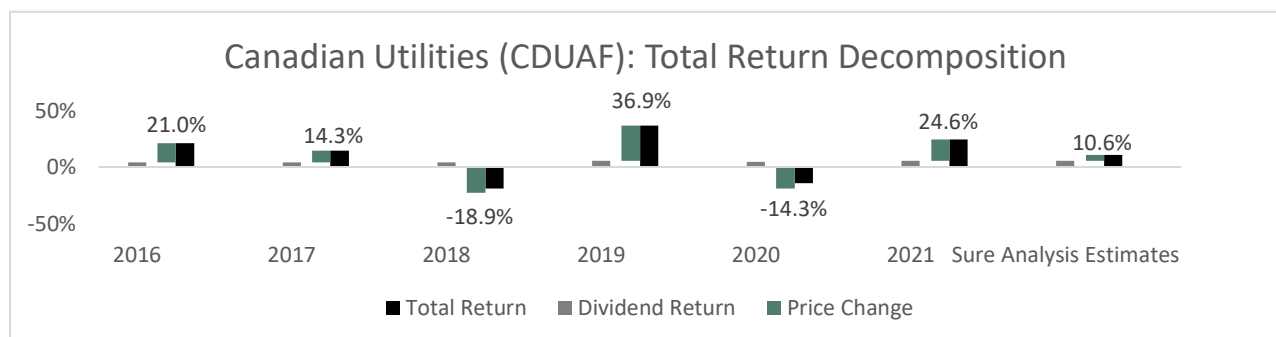
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	44%	46%	42%	105%	63%	86%	75%	52%	132%	81%	81%	75%

The company's competitive advantage lies in the moat regulated utilities are surrounded by. With no easy entry in the sector, regulated utilities enjoy an oligopolistic market with little competition threat. The company's resiliency has been proven for decade after decade. Despite multiple recessions and uncertain environments over the past 50 years, the company has withstood every one of them while raising its dividend. While Canadian Utilities' payout ratio were under pressure during 2020 (though dividends were in reality covered from its operating cash flows if we are to exclude depreciation and amortization,) by 2027 we expect it to have returned to much more comfortable levels, of around 75% of its net income.

Final Thoughts & Recommendation

We believe that Canadian Utilities is an excellent buy for income-oriented investors who seek stable and predictable returns. The latest dividend increase of 1.0% in local currency may suggest a slowdown compared to its 5-year average of 6.3%. However, as the company retains more cash to invest in future projects and pay down its debt, the dividend yield remains very attractive. We believe that Canadian Utilities offers low volatility and a stable investment case during a time of high uncertainty. We project medium-term returns of around 11.7%, powered by the stock's high yield and modest EPS growth expectations. We rate the stock a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	\$3,033	\$3,040	\$3,283	\$3,261	\$2,557	\$2,567	\$3,152	\$3,378	\$2,942	\$2,413
Gross Profit	\$2,018	\$2,104	\$2,266	\$2,137	\$1,910	\$2,009	\$2,144	\$2,240	\$2,188	\$1,877
Gross Margin	66.5%	69.2%	69.0%	65.5%	74.7%	78.3%	68.0%	66.3%	74.4%	77.8%
SG&A Exp.	\$446	\$497	\$498	\$463	\$363	\$293	\$272	\$330	\$258	\$255
D&A Exp.	\$374	\$412	\$464	\$466	\$503	\$433	\$461	\$492	\$439	\$455
Operating Profit	\$942	\$943	\$1,033	\$922	\$639	\$898	\$917	\$835	\$963	\$702
Operating Margin	31.0%	31.0%	31.5%	28.3%	25.0%	35.0%	29.1%	24.7%	32.7%	29.1%
Net Profit	\$521	\$553	\$570	\$644	\$276	\$468	\$397	\$489	\$717	\$319
Net Margin	17.2%	18.2%	17.4%	19.8%	10.8%	18.2%	12.6%	14.5%	24.4%	13.2%
Free Cash Flow	-\$14	-\$870	-\$517	-\$596	-\$43	\$248	\$73	-\$205	\$185	\$553
Income Tax	\$189	\$156	\$182	\$187	\$161	\$178	\$133	\$174	\$40	\$113

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	11,248	13,287	14,135	14,388	13,021	13,945	16,572	16,020	15,344	15,920
Cash & Equivalents	\$574	\$351	\$468	\$302	\$350	\$256	\$304	\$400	\$745	\$609
Accounts Receivable	\$399	\$533	\$448	\$418	\$312	\$384	\$469	\$496	\$389	\$426
Inventories	\$77	\$79	\$85	\$73	\$32	\$28	\$32	\$23	\$23	\$22
Goodwill & Int. Ass.	\$285	\$331	\$347	\$341	\$349	\$390	\$448	\$463	\$482	\$514
Total Liabilities	\$7,148	\$8,890	\$9,070	\$9,558	\$8,558	\$9,294	\$11,530	\$11,202	\$10,046	\$10,580
Long-Term Debt	\$4,468	\$5,502	\$5,910	\$6,305	\$5,759	\$6,214	\$7,890	\$7,694	\$6,864	\$7,102
Shareholder's Equity	\$3,391	\$3,670	\$4,019	\$3,870	\$3,259	\$3,401	\$3,714	\$3,592	\$4,020	\$4,029
LTD/E Ratio	1.09	1.25	1.17	1.31	1.33	1.38	1.61	1.64	1.33	1.37

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.1%	4.5%	4.2%	4.5%	2.0%	3.5%	2.6%	3.0%	4.6%	2.0%
Return on Equity	15.7%	15.7%	14.8%	16.3%	7.7%	14.1%	11.1%	13.4%	18.8%	7.9%
ROIC	6.6%	6.0%	5.5%	5.8%	2.6%	4.4%	3.3%	3.8%	5.8%	2.6%
Shares Out.	255.4	256.0	259.3	262.8	265.3	267.8	270.1	272.1	273.2	273
Revenue/Share	\$11.88	\$11.87	\$12.66	\$12.41	\$9.64	\$9.59	\$11.67	\$12.41	\$10.77	\$8.83
FCF/Share	-\$0.06	-\$3.40	-\$1.99	-\$2.27	-\$0.16	\$0.93	\$0.27	-\$0.75	\$0.68	\$2.02

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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