Why portfolio manager Christine Poole likes utilities and her three picks in the sector

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Portfolio manager Christine Poole is cautious about the bounce back in stock markets since the March slump. Like many investors, she believes the coming U.S. presidential election and the second wave of the COVID-19 pandemic could bring more market volatility in the months ahead.

“We’re definitely not chasing this market,” says Ms. Poole, chief executive officer and managing director at Toronto-based GlobeInvest Capital Management Inc., which oversees about $200-million in assets.

There are sectors she finds attractive though, particularly utilities as an income alternative for investors in the current low-interest-rate environment.

“[Utilities] offer a steady income stream and earnings stability,” she says.

Some utility stocks are also a play on the growing environment, social and governance, or ESG, investing trend, in particular those with reneqable power generation assets.

The dividend yields are also attractive on utility stocks, often above 3 per cent.

“Over the longer term, utilities are a stable source of dividend income for investors requiring income and will also benefit from the decarbonization trend,” Ms. Poole says.

Utilities have also done well over the years. Ms. Poole notes the compound annual growth rate for the S&P/TSX Composite Index was 5.8 per cent as of Sept. 30 versus 8.3 per cent for the S&P/TSX Capped Utilities Index.

Her three picks in the sector:

The pick: BEP-UN-T +1.29%increase

52-week range: $43.74-$76.80

Dividend yield: 3.3 per cent

One-year total price return: 59 per cent (total price return data from Morningstar as of close last Friday)

GlobeInvest has been a long-time owner of shares of Brookfield Renewable’s parent company, Brookfield Asset Management (BAM-T), and in the early spring picked up the renewable power generation unit, which has facilities across North America, Latin America and Europe.

“Even though we did have exposure through BAM, I did want a direct pure play,” she says.

She likes the company’s long track record in the renewable space and global presence.

About 90 per cent of its business is under long-term power generation contracts with an average term of 14 years. “[The company has] lots of opportunities to grow organically as well as through acquisitions,” she says.

Brookfield Renewable has run up in price recently (up about 15 per cent in the past month), amid the growing interest in many ESG investments, she notes.

She says investors might want to wait for a pullback before getting in, “but I still think it’s a great long-term investment in the renewables space.”

The pick: FTS-T -1.24%decrease

52-week range: $41.52-$59.28

Dividend yield: 3.6 per cent

One-year total price return: 0.7 per cent

Ms. Poole has been recently adding to her firm’s position on Fortis, which owns and operates utility transmission and distribution assets across North America. She likes that most of its assets are government-regulated, which means its contracts are consistent and it has “highly visible” cash flow.

Ms. Poole says her firm has held Fortis stock for many years for clients as a source of steady, reliable income. The company has increased its dividend for 47 consecutive years and recently confirmed it would raise it by an average of 6 per cent annually until 2025. She says the company has the assets in place to support it.

“It’s very defensive and high quality,” she says.

The company is also working on lowering its carbon footprint, including replacing its coal generation assets with renewables such as wind and solar. Ms. Poole likes the company’s plan to phase out of coal power by 2032.

The pick: AQN-T +0.05%increase

52-week range: $13.84-$22.39

Dividend yield: 4 per cent

One-year total price return: 16 per cent

Algonquin is a split of 75-per-cent regulated utilities and about 25-per-cent renewables and most of its assets are in the United States.

“We like both sides of their business and they’ve been growing on the renewables side,” Ms. Poole says.

She also likes their more active acquisition strategy versus some of the other utilities.

The company has also been steadily increasing its dividend, with a goal to raise it 10 per cent annually through to 2021. Ms. Poole thinks Algonquin might moderate that growth rate moving forward, but still expects the dividend to continue to increase annually.

She says a recent deal with Chevron Corp. subsidiary Chevron USA to co-develop renewable power projects as part of the oil and gas giant’s efforts to lower its global carbon footprint highlights Algonquin’s expertise and is another growth area for the company.