

Five Utilities for a Bull Market in Bonds

Utility stocks held up well in 2022 until the last two months. While the broader markets were down 15-20% through August, the utility stock ETF XLU was up slightly. XLU's outperformance reversed on a dime in September as bond yields rose rapidly. In just the last two months, the 10-yr Treasury note yield increased by 1%. XLU fell in sympathy by nearly 20% over the same period

The 4%+ bond yields for risk-free Treasury securities and 5-6% for high-rated corporate debt are likely tempting traditional investors away from dividend stocks toward less volatile bonds. As such, the price of utilities has fallen, making their dividend yields more competitive with bonds.

If you think bond yields are peaking and likely to decline in the coming months, a bond surrogate like utilities may do very well. Given this outlook, we seek utility companies offering attractive dividends, decent growth potential, lower valuations, and relatively low debt ratios.

Screening Criteria

We considered the following factors when screening:

- Sector = Utilities
- P/E and Forward P/E <20
- Dividend Yield >4%
- LT Debt/Equity <1.5x
- EPS growth next 5 years >5%
- Debt levels

| | Market Cap | P/E | Forward P/E | Long Term Debt:Equity | EPS Next 5 Years | Dividend Yield |
|-----|------------|-------|-------------|--------------------------|---------------------|-------------------|
| ALE | \$2.89 bn | 14.51 | 13.33 | 0.60 | 8.7% | 4.97% |
| AVA | \$2.78 bn | 18.79 | 15.94 | 1.07 | 5.4% | 4.54% |
| DUK | \$67.16 bn | 17.90 | 15.41 | 1.32 | 5.5% | 4.52% |
| FTS | \$24.11 bn | 14.20 | 12.64 | 1.34 | 5.3% | 6.02% |
| UGI | \$6.81 bn | 5.26 | 10.29 | 1.10 | 6.9% | 4.39% |

DUK is the most appealing to us due to its large market cap. Given the passive nature of markets, investors interested in utilities will buy XLU and not individual utility stocks despite some offering better value. As such, the largest utilities within XLU should outperform the sector. DUK is the second largest holding at 7.85% of the ETF.

Company Summaries

ALLETE, Inc. (ALE)

ALLETE, Inc. (ALE) - Utilities-Diversified

Description

ALLETE, Inc. operates as an energy company. The company operates through Regulated Operations, ALLETE Clean Energy, and Corporate and Other segments. It generates electricity from coal-fired, biomass co-fired / natural gas, hydroelectric, wind, and solar. The company provides regulated utility electric services in northeastern Wisconsin to approximately 15,000 electric customers, 13,000 natural gas customers, and 10,000 water customers, as well as regulated utility electric services in northeastern Minnesota to approximately 145,000 retail customers and 15 non-affiliated municipal customers. It also owns and maintains electric transmission assets in Wisconsin, Michigan, Minnesota, and Illinois. In addition, the company focuses on developing, acquiring, and operating clean and renewable energy projects, and owns and operates approximately 1,000 megawatts of wind energy generation facility. Further, it is involved in the coal mining operations in North Dakota, and real estate investment activities in Florida. The company owns and operates 158 substations with a total capacity of 10,066 megavolt amperes. It serves lacrosse, mining, paper, pulp and secondary wood products, pipeline, and other industries. The company was formerly known as Minnesota Power, Inc. and changed its name to ALLETE, Inc. in May 2001. ALLETE, Inc. was incorporated in 1906 and is headquartered in Duluth, Minnesota.

Latest Price (as of 21, 2023, 9:00:40 AM)

\$54.83 ▲ (\$1.02) (1.90%)

52 Week Range

\$47.77

Last Close

\$53.81

Day Range

\$58.45

Open

\$54.39

Volume

9,975

Avg. Volume (3m)

320,135

Annual Div.

\$2.56

Div. Yield

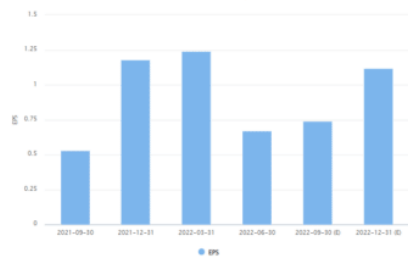
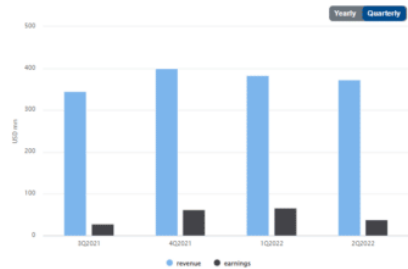
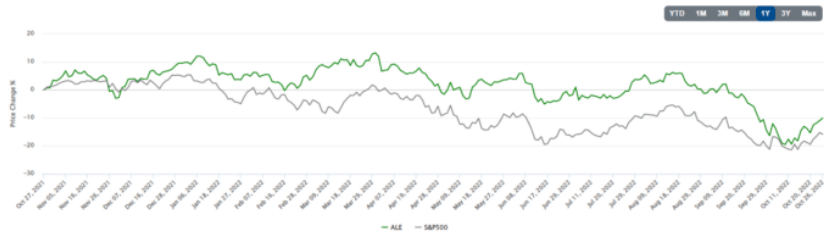
4.76%

Mkt Cap (mm)

\$3,129.26

Beta

0.67



Avista Corporation (AVA)

Avista Corporation (AVA) - Utilities-Diversified

Description

Avista Corporation, together with its subsidiaries, operates as an electric and natural gas utility company. It operates in two segments, Avista Utilities and AELAP. The Avista Utilities segment provides electric distribution and transmission, and natural gas distribution services in parts of eastern Washington and northern Idaho; and natural gas distribution services in parts of northeastern and southwestern Oregon, as well as generates electricity in Washington, Idaho, Oregon, and Montana. This segment also engages in the wholesale purchase and sale of electricity and natural gas. The AELAP segment offers electric services to 17,400 customers in the city and borough of Juneau, Alaska. The company generates electricity through hydroelectric, thermal, and wind facilities. As of February 23, 2022, it provided electric service to 406,000 customers and natural gas to 372,000 customers. In addition, the company engages in venture fund investments, real estate investments, and other investments. Avista Corporation was incorporated in 1989 and is headquartered in Spokane, Washington.

Latest Price (as of 21, 2023, 9:05:52 AM)

\$40.32 ▲ (\$0.52) (1.32%)

52 Week Range

\$36.27

Last Close

\$39.79

Day Range

\$40.50

Open

\$40.14

Volume

16,027

Avg. Volume (3m)

383,353

Annual Div.

\$1.73

Div. Yield

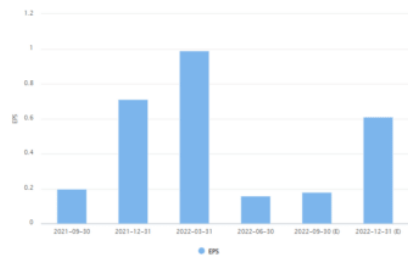
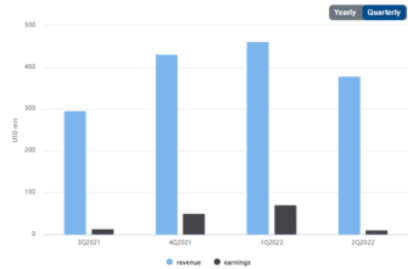
4.34%

Mkt Cap (mm)

\$2,942.07

Beta

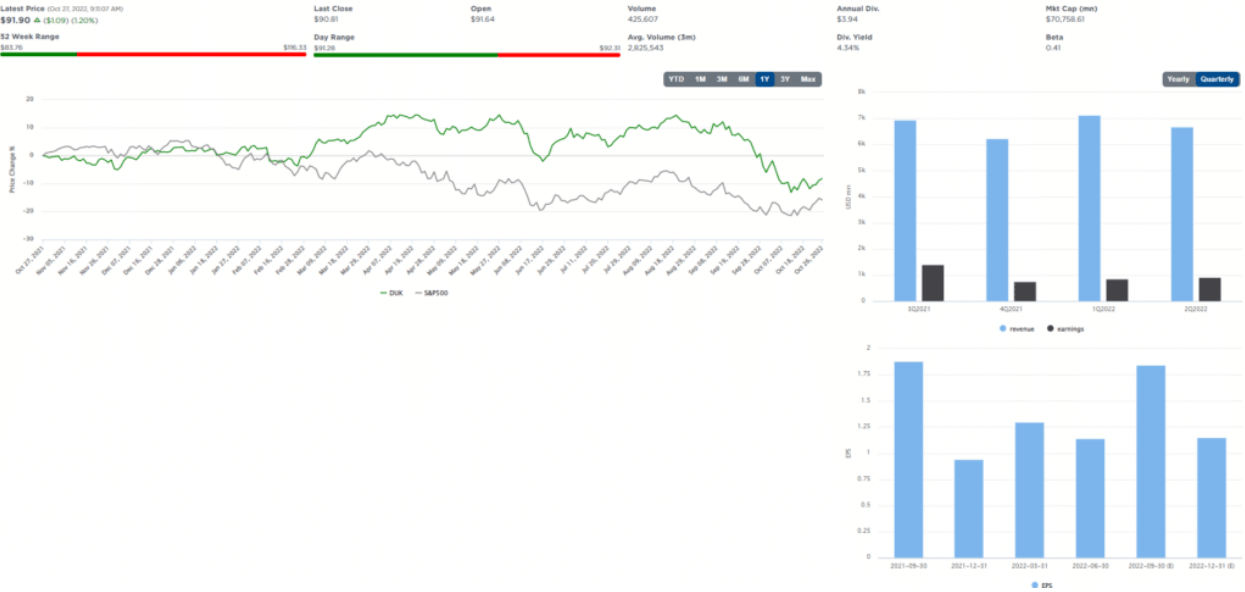
0.55



Duke Energy Corporation (DUK)

Duke Energy Corporation (DUK) - Utilities—Regulated Electric

Description
Duke Energy Corporation, together with its subsidiaries, operates as an energy company in the United States. It operates through three segments: Electric Utilities and Infrastructure, Gas Utilities and Infrastructure, and Commercial Renewables. The Electric Utilities and Infrastructure segment generates, transmits, distributes, and sells electricity in the Carolinas, Florida, and the Midwest; and uses coal, hydroelectric, natural gas, oil, renewable generation, and nuclear fuel to generate electricity. It also engages in the wholesale of electricity to municipalities, electric cooperative utilities, and load-serving entities. This segment serves approximately 8.2 million customers in 6 states in the Southeast and Midwest regions of the United States covering a service territory of approximately 90,000 square miles, and owns approximately 30,250 megawatts (MW) of generation capacity. The Gas Utilities and Infrastructure segment distributes natural gas to residential, commercial, industrial, and power generation natural gas customers, and owns, operates, and invests in pipeline transmission and natural gas storage facilities. It has approximately 1.6 million customers, including 11 million customers in North Carolina, South Carolina, and Tennessee, as well as 550,000 customers in southwestern Ohio and northern Kentucky. The Commercial Renewables segment acquires, owns, develops, builds, and operates wind and solar renewable generation projects, including nonregulated renewable energy and energy storage services to utilities, electric cooperatives, municipalities, and corporate customers. It has 23 wind, 178 solar, and 2 battery storage facilities, as well as 71 fuel cell locations with a capacity of 3,354 MW across 22 states. The company was formerly known as Duke Energy Holding Corp. and changed its name to Duke Energy Corporation in April 2005. The company was founded in 1904 and is headquartered in Charlotte, North Carolina.



Fortis Inc. (FTS) - Utilities—Regulated Electric

Description
Fortis Inc. operates as an electric and gas utility company in Canada, the United States, and the Caribbean countries. It generates, transmits, and distributes electricity to approximately 438,000 retail customers in southeastern Arizona and 900,000 retail customers in Arizona's Mohave and Santa Cruz counties with an aggregate capacity of 5,885 megawatts (MW), including 5.9 MW of solar capacity and 212 MW of wind capacity. The company also sells wholesale electricity to other entities in the western United States; owns gas-fired and hydroelectric generating capacity totaling 65 MW; and distributes natural gas to approximately 1265,000 residential, commercial, and industrial customers in British Columbia, Canada. In addition, it owns and operates the electricity distribution system that serves approximately 570,000 customers in southern and central Alberta, owns 4 hydroelectric generating facilities with a combined capacity of 225 MW, and provides operation, maintenance, and management services to five hydroelectric generating facilities. Further, the company distributes electricity in the island portion of Newfoundland and Labrador with an installed generating capacity of 163 MW, and on Prince Edward Island with a generating capacity of 103 MW. Additionally, it provides integrated electric utility service to approximately 68,000 customers in Ontario; approximately 272,000 customers in Newfoundland and Labrador; approximately 32,000 customers on Grand Cayman, Cayman Islands; and approximately 16,000 customers on certain islands in Turks and Caicos. The company also holds long-term contracted generation assets in Belize consisting of 3 hydroelectric generating facilities with a combined capacity of 51 MW, and the Ashby Creek natural gas storage facility. It also owns and operates approximately 90,000 circuit kilometers (km) of distribution lines, and approximately 103,000 km of natural gas pipelines. Fortis Inc. was founded in 1985 and is headquartered in St. John's, Canada.



UGI Corporation (UGI)

UGI Corporation (UGI) - Utilities—Regulated Gas

Description

UGI Corporation distributes, stores, transports, and markets energy products and related services in the United States and internationally. The company operates through four segments: AmeriGas Propane, UGI International, Midstream & Marketing, and UGI Utilities. It distributes propane to approximately 1.4 million residential, commercial/industrial, motor fuel, agricultural, and wholesale customers through 1600 propane distribution locations. The company also distributes liquefied petroleum gases (LPG) to residential, commercial, industrial, agricultural, wholesale and automobile fuel customers, and provides logistics, storage, and other services to third-party LPG distributors. In addition, it engages in the retail sale of natural gas, liquid fuel, and electricity to approximately 12,600 residential, commercial, and industrial customers at 42,400 locations. Further, the company distributes natural gas to approximately 672,000 customers in eastern and central Pennsylvania counties through its distribution system of approximately 12,400 miles of gas mains, and supplies electricity to approximately 62,500 customers in northeastern Pennsylvania through 2,600 miles of lines and 14 substations. Additionally, it operates electric generation facilities, which include coal-fired, landfill gas-fueled, solar-powered, and natural gas-fueled facilities; a natural gas liquefaction, storage, and vaporization facility; propane storage and propane-air mixing stations; and rail transshipment terminals. It also manages natural gas pipeline and storage contracts; develops, owns, and operates pipelines, gathering infrastructure, and gas storage facilities. UGI Corporation was incorporated in 1991 and is based in King of Prussia, Pennsylvania.

Latest Price (Oct 27, 2023, 9:02:02 AM)

\$34.68 A (\$0.62) (1.82%)

52 Week Range

\$33.19

Last Close

\$34.06

Open

\$34.40

Volume

92,834

Day Range

\$33.98

Avg. Volume (3m)

120,954

Annual Div.

\$1.40

Div. Yield

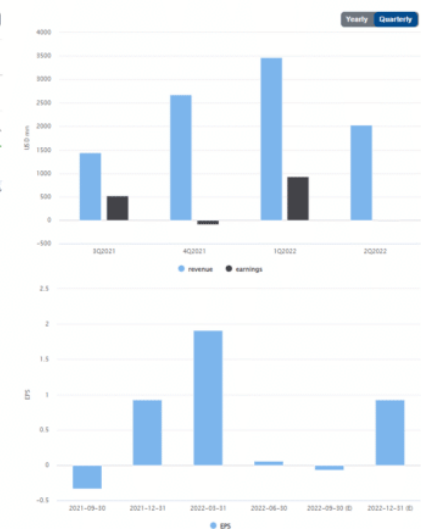
4.03%

Mkt Cap (m)

\$7,261.33

Beta

1.06



Five for Friday

Five for Friday uses stock screens to produce five stocks that we expect will outperform if a particular investment theme plays out in the future. Investment themes may be relevant to the current or expected market, industry and/or economic trends. Investment themes may not always represent our current forecast.

Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our [disclosures](#) carefully and do your own research before investing.