

5 Utility Dividend Stocks With Upside Potential

by Robert Hauver

With the S&P 500 finally in positive territory year-to-date, we took a look at what's been working in 2016. Topping the list is the Utility sector, which has been the go-to sector for income investors, and even non-income investors in this volatile market.

Healthcare, formerly the leading sector for quite a while, has fallen out of favor, thanks to political headline risk due to prescription overpricing by some firms. Meanwhile, the Utility sector is up over 12% in 2016, leading all others by a wide margin. Even the resurgent Energy sector, which is up 12% over the past month, trails Utilities by a wide margin:

INDUSTRY SECTOR	YTD % CHANGE	THIS MONTH'S CHANGE	THIS WEEKS CHANGE %
Utilities	12.32%	4.99%	0.96%
Telecoms (US)	6.60%	3.72%	1.89%
Energy	5.22%	12.02%	1.76%
Industrials	4.94%	6.73%	2.90%
Basic Materials	4.35%	8.40%	2.05%
Consumer Staples	4.28%	3.40%	0.38%
Tech	1.77%	6.39%	1.68%
Consumer Discretionary	-0.24%	4.74%	0.87%
Health Care	-7.21%	0.97%	-2.55%
Financials	-8.46%	7.78%	1.07%

With all of the strong price performance in the Utility sector, we wondered if there were any dividend stocks left that weren't already above their consensus analyst price targets. We came up with these 5 stocks, which range in size from small caps Otter Tail and Empire District, to large cap Dominion Resources:

Ticker	Company	Industry	Price	Market Cap
OTTR	Otter Tail Corporation	Diversified Utilities	\$28.66	\$1.09B
D	Dominion Resources	Electric Utilities	\$73.46	\$43.81B
PPL	PPL Corporation	Electric Utilities	\$37.06	\$24.94B
EDE	Empire District Electric	Electric Utilities	\$33.30	\$1.46B
AES	AES Corporation	Electric Utilities	\$11.62	\$7.67B
			UTILITY SECTOR AVGS.	\$13.56B

Granted, these stocks aren't far from their average target prices, but compare where they're at to the overall Utility sector, which is nearly 6% above its average price target. All of them have outperformed the S&P 500

year to date:

Ticker	Price	Avg. Target Price	Upside Potential vs. Avg. Target Price	Performance (Month)	Performance (YTD)
OTTR	\$28.66	\$30.00	4.47%	4.83%	8.84%
D	\$73.46	\$76.31	3.73%	6.38%	9.70%
PPL	\$37.06	\$37.90	2.22%	2.56%	9.74%
EDE	\$33.30	\$34.00	2.06%	0.72%	19.56%
AES	\$11.62	\$11.70	0.68%	19.79%	22.90%
UTILITY SECTOR AVGS.	\$50.11	\$47.34	-5.95%	6.26%	14.90%
			S&P 500	6.07%	0.28%

Dividends: Our [High Dividend Stocks By Sectors Tables](#) now tracks these 5 stocks and their current yields, in the Utilities section. OTTR has the highest dividend yield, at 4.36%, with one of the lower dividend payout ratios in the group. All but EDE have higher than average dividend payouts. However, they do have a higher than average dividend payout ratio.

Ticker	Dividend Yield	Payout Ratio	Most Recent Quarterly Dividend	Next Ex-Dividend Date (approx.)
OTTR	4.36%	77.40%	\$0.3125	5/13/16
D	3.81%	80.70%	\$0.7000	5/27/16
PPL	4.10%	75.80%	\$0.3800	6/8/16
EDE	3.12%	79.40%	\$0.2600	5/26/16
AES	3.79%	95.30%	\$0.1100	4/29/16
UTILITY SECTOR AVGS.	3.48%	65.25%		

Options: Want some "sauce on the side" with your dividends? AES appears to have the most attractive covered call option yields. The AES May \$12.00 call strike pays a bid price of \$.30. Couple that with the \$.11/share dividend which goes ex-dividend around 4/29/16, and you get a 3.53% yield in around 2 months, or 21.11% annualized.

The \$12.00 call strike, being \$.38 above AES's \$11.62 price/share, leaves you some room for potential price gains. You can track this trade and over 30 other income-producing trades in our [free Covered Calls Table](#).

Ticker	3/18/16 Price	DIVIDEND PER SHARE \$ PAID PRIOR TO CALL EXPIRATION	ANNUAL'D DIVIDEND YIELD %	CALL OPTION EXPIRATION MONTH & STRIKE PRICE	CALL BID PREMIUM	ANNUAL'D CALL YIELD	TOTAL ANN'D STATIC YIELD	POTENTIAL ASSIGNED YIELD	ANNUAL'D TOTAL POTENTIAL YIELD
AES	\$11.62	\$0.1100	5.66%	5/21/2016 \$12.00	\$0.30	15.45%	21.11%	19.57%	40.68%

This table details the assigned and [static yields](#) for this trade.

SHARE PRICE	CALL OPTION PREMIUM	DIVIDENDS Pre-Expiration Date	(A): STATIC INCOME (CALL PREMIUM + DIVIDEND)	POTENTIAL ASSIGNED PRICE GAINS (STRIKE PRICE MINUS SHARE PRICE)	(B): POTENTIAL ASSIGNED PRE- EX-DIVIDEND DATE INCOME: PRICE GAIN + CALL OPTION PREMIUM, BUT NO DIVIDENDS	(C): TOTAL POTENTIAL ASSIGNED INCOME: IF ASSIGNED AFTER EX-DIVIDEND DATES
\$11.62	\$0.30	\$0.11	\$0.41	\$0.38	\$0.68	\$0.79
Nominal Yields:	2.58%	0.95%	3.53%	3.27%	5.85%	6.80%

With the price gains these stocks have had, you might also want to consider selling cash secured puts below their price/share, in order to get a lower breakeven. We added this trade to our [free Cash Secured Puts Table](#), which has more details on this and over 30 other put-selling trades.

3/18/16 Price	DIVIDEND PER SHARE \$ EX-DATES BEFORE PUT EXPIRATION	ANNUAL'D DIVIDEND YIELD %	PUT OPTION EXPIRATION MONTH & STRIKE PRICE	PUT BID PREMIUM	ANNUAL'D PUT YIELD	100% CASH RESERVE AMOUNT	BREAK-EVEN PRICE	52-WEEK LOW
\$11.62	\$0.1100	5.66%	5/21/2016 \$11.00	\$0.30	16.32%	\$1,100.00	\$10.70	\$8.22

Valuations: As usual in a group of stocks, it's a mixed bag for valuations. OTTR sports the lowest Price/Book, whereas AES has the lowest Price/Sales and Forward P/E valuations.

Ticker	P/E	Forward P/E	P/Sales	P/Book
OTTR	18.49	17.91	1.40	1.79
D	22.96	18.62	3.75	3.46
PPL	15.57	15.36	3.25	2.51
EDE	25.81	21.04	2.41	1.82
AES	26.41	10.01	0.51	2.46
UTILITY SECTOR AVGS.	19.88	17.33	2.07	1.84

Financials: OTTR also has the lowest Debt/Equity ratio, and most of its other metrics are better than industry averages.

Ticker	Return on Assets	Return on Equity	Return on Investment	Current Ratio	Total Debt/Equity
OTTR	3.30%	10.20%	7.40%	0.80	0.96
D	3.40%	15.30%	6.30%	0.50	2.29
PPL	3.20%	12.00%	7.90%	0.70	2.01
EDE	2.30%	7.10%	5.70%	1.10	1.11
AES	0.80%	8.40%	2.70%	1.00	6.61
UTILITY SECTOR AVGS.	2.89%	9.70%	6.34%	0.84	1.16

When it comes down to it, hiding out in a defensive sector may not be such a bad idea in 2016, which has the uncertainty of the US Presidential election, and the possibility of more Fed rate hikes, both of which could serve to continue rattling the market in the future. For now, the 5-week rally, inspired by Crude Oil's comeback, (at least until the upcoming April 17th OPEC meeting), and the additional ECB stimulus, may possibly give you a pullback to take advantage of in some Utility stocks, as investors take on more risk.

Disclaimer: This article is written for informational purposes only. Please perform your due diligence before investing in any of the stocks mentioned in this article.

Disclosure: Author owned no shares of any stocks mentioned in this article at time of publication.