



Why boring is beautiful with utility stocks

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What the charts say about AGL Energy, APA Group, SP AusNet and Duet Group.



By Robert Brain, ATAA

Utility companies are considered among the safest investments because the demand for their services is relatively stable and they have historically tended to be monopolies regulated by government.

These companies, basically covering water, gas and electricity, are generally viewed as somewhat conservative investments for the long-term and are unlikely to fold overnight. Over time, these stocks tend to pay reasonable dividends, making them good choices for an income stream.

(Editor's note: [The ASX Energy & Utilities sector profile](#) has more information on this sector).

One of the downsides of investing in utility stocks, however, is that they tend to be limited in opportunity for capital growth. Also, their share price can be hit hard when the general sharemarket suffers during the frequent periods of bear market activity. See the information and price charts below, and remember that on average a bear market or market correction occurs about every three years.

The Utilities index (XUJ)

The S&P/ASX 200 Utilities index (code: XUJ) comprises stocks from the S&P/ASX 200 index (XJO) and currently has just seven stocks, shown in the table below.

| Symbol | Name | Market Cap(millions) |
|--------|--|----------------------|
| AGK | AGL Energy Limited | 8,601 |
| APA | APA Group Stapled Securities | 4,931 |
| SPN | SP Ausnet Stapled Securities | 3,967 |
| DUE | Duet Group Stapled Securities | 2,672 |
| SKI | Spark Infrastructure Stapled Note & Unit | 2,163 |
| ENV | Envestra Limited | 1,976 |
| EWC | Energy World Corporation Limited | 798 |

Source: [Robert Brain](#)

Share price performance

Before we look at some price charts, it is important to think about how the underlying opinions and emotions of all market participants are reflected in the charts. It is very useful to be able to understand the stories charts tell.

Over time, the general consensus opinion about so-called "fair value" for any stock is reflected in the price. If someone with an opinion is not participating in the market, then their opinion does not carry much weight.

It is the fair value opinion of market participants that causes a company's price to move up and down, or to swing back and forth between two extremes. The consistently higher peaks on a price chart, with consistently higher troughs, indicate a tendency for the market participants to increase their view about fair value over time.

This consistent increase is an uptrend, and technical analysts know that the trend is your friend. They also know that when a trend is in place and confirmed, it is likely to continue. Therefore, a down-trending stock just keeps on getting cheaper and cheaper, until the downtrend is confirmed to have finished.

Identifying investment candidates by looking for strong dividend payers can be one part of the investment game, while the other key plank is to look for up-trending stocks and avoid those on a downtrend. When looking at the price charts of an index, remember that the index is an aggregation of a number of stocks. Even so, the principles regarding a company's fair value still apply, so charts of the index can be very useful for a picture of overall opinion about a group of companies.

Performance comparison

The monthly price chart below shows the S&P/ASX 200 index (XJO), fondly referred to as the Top 200 (even though they are not strictly the largest 200 stocks on our market) and the S&P/ASX 200 Utilities index (XUJ). Notice they are closely correlated most of the time - that is, they generally tend to follow each other.

**Comparing the Top 200 index (XJO) to the Utilities index (XUJ)
2000 - 2013**



Source: © September 2013, [Robert Brain](#)

Notice the Utilities index peaked a few months before the ASX 200 in 2007, and then they both fell through 2008 to a bottom within two days of each other in March 2009. Since then their relative performance has been very different.

The ASX 200 rallied hard in late 2009 and has moved mostly sideways since, whereas the Utilities index has rallied consistently higher throughout the period. For anyone trading the index, the Utilities would have been the

one to make money consistently during this period.

Dividend performance

Many investors have a need for income as a key plank of their investment strategy. For the sharemarket investor, this makes company dividend performance very important. But how do we find the stocks that offer a good dividend yield? It can be done using the online tools offered by a broker or various websites, or good charting software.

I used the Australian [BullCharts](#) charting software to analyse yield. By running a BullCharts scan across the group of stocks defined as utilities according to their GICS code, I produced a list of 31, of which only 13 are currently paying dividends. These stocks are listed in the table below, along with their current dividend yield and market capitalisation, and whether they participate in the Utilities index.

Dividend-paying utility stocks (sorted by dividend yield)

| Symbol | Name | Div Yield (%) | Market Cap (millions) | XUJ? |
|--------|--|---------------|-----------------------|------|
| TSI | Transfield Serv Infr Stapled Securities | 7.9 | 371 | No |
| EPX | Ethane Pipeline Stapled Securities | 7.7 | 128 | No |
| DUE | Duet Group Staples Us Prohibit. | 7.6 | 2,672 | Yes |
| SPN | SP Ausnet Stapled Securities | 7 | 3,967 | Yes |
| SKI | Spark Infrastructure Stapled Note & Unit | 6.6 | 2,163 | Yes |
| APA | APA Group Stapled Securities | 6 | 4,931 | Yes |
| ENV | Envestra Limited | 5.6 | 1,976 | Yes |
| AGK | AGL Energy Limited | 4.1 | 8,601 | Yes |
| EPW | Erm Power Limited | 3.9 | 560 | No |
| IFZ | Infratil Limited | 3.7 | 1,221 | No |
| PEA | Pacific Energy Limited | 2.4 | 153 | No |
| ENE | Energy Developments Limited | 2.2 | 814 | No |
| APK | Australian Power and Gas Company Limited | 1.5 | 100 | No |

Source: © September 2013, [Robert Brain](#)

Before chasing yield and attempting to invest in any of these, remember that most technical analysts believe that the trend is your friend, and use technical analysis to identify only those stocks that are likely to produce good capital returns.

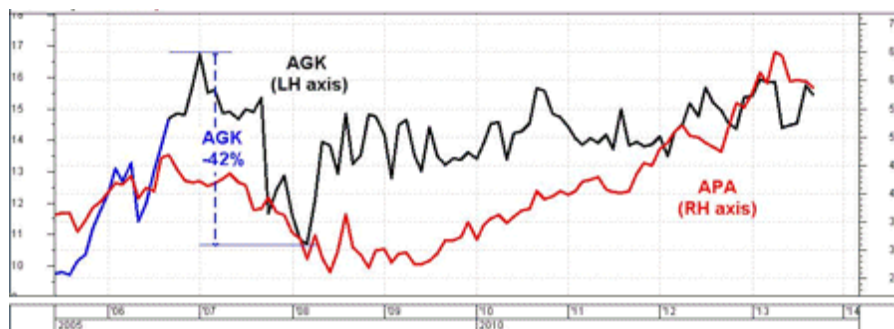
For many investors, the income from dividends is not everything. If a share price stumbles, the stock can be sold to capture profits and protect the investment capital from serious damage. Despite popular opinion, it is possible to time the market; to cash in our chips from time to time and seek better investment possibilities.

Largest stocks comparison

Let's look at the four largest stocks in this sector - AGL Energy, APA Group, SP AusNet and Duet Group.

The monthly price chart below shows the share prices of AGL Energy (AGK) and APA Group (APA) from mid-2005 until early September 2013. Note that AGK's price peaked at around \$17 in early 2007, and then fell 42 per cent (measured from highest daily close to lowest daily close). After a quick run-up in early 2008 it has traded mostly sideways. If holding this stock in 2006, the astute investor would have sold this stock once it fell much below about \$15.

Comparing AGK and APA line chart 2005 to 2013



Source: © September 2013, Robert Brain

The chart of APA in the same diagram is rather different. After a fall of 50 per cent from its peak in mid-2006, it has rallied to new highs through 2012 and 2013. This chart of APA is a good example of an uptrend - remember the trend is your friend.

The chart below compares SP Ausnet (SPN) and Duet Group (DUE).

Comparing SPN and DUE 2005 to 2013



Source: © September 2013, Robert Brain

At first glance in this monthly price chart we see that the share price of SP Ausnet and Duet Group have been somewhat correlated over the period 2006 to 2013. They have peaked together and bottomed together, and then rallied together for most of the time since the persistent lows of 2009 and 2010.

It is interesting to note that SPN fell 51 per cent from its peak in June 2007. On the way down, in a confirmed downtrend, there was ample time for anyone who spotted the trend to exit a position in this stock and preserve

capital.

A careful look at this chart shows that SPN hit basically the same bottom price of about 72 to 75 cents about 10 months apart (this is easier to see on a daily chart). This is known as a Double Bottom chart pattern. DUE did much the same thing but over 24 months, with the first low at \$1.31 and the second at \$1.47.

SPN and DUE then rallied to the present day by about 62 per cent and 51 per cent respectively.

The Double Bottom chart pattern occurs because a majority of market participants have caused the price to fall to a level where they all tend to agree on the intrinsic value, or fair value - a floor price. At some point in time a number of the investors think it is a bargain, and cause the price to rise over several days or weeks, and sometimes several months.

Then after days or weeks a majority of the participants think the price has risen too far so they take profits. This selling pressure can cause more sellers to follow suit and lock in their profits. This causes the price to fall back towards its earlier low. At some stage all the sellers are exhausted and the buying starts again. This leaves behind two low points on the price chart at very similar levels with several weeks or months of time between them.

The price charts do summarise the opinions of markets participants, leaving a story to tell hidden in the chart.

Stock performance

What about the old Wall Street adage about holding blue-chip stocks for the long term? Well, the seven stocks in this index all fell at least 42 per cent at some stage during 2007 and 2008, and a couple fell about 80 per cent (see the table below).

| Code | Company | Peak (mth year) | SP fall (percent) | Months to bottom |
|------|------------------------------------|-----------------|-------------------|------------------|
| AGK | AGL Energy Limited | Jan 2007 | 42 | 14 |
| APA | APA Group Stapled Securities | Aug 2006 | 50 | 27 |
| SPN | SP Ausnet Stapled Securities | Jun 2007 | 51 | 27 |
| DUE | Duet Group Stapled | Jun 2007 | 66 | 21 |
| SKI | Spark Infrastructure Stapled Notes | Mar 2007 | 59 | 24 |
| ENV | Envestra Limited | Mar 2007 | 78 | 23 |
| EWC | Energy World Corporation Limited | Mar 2008 | 87 | 7 |

Source: © September 2013, Robert Brain

A number of these stocks today are still below their highs of that period. Does this really matter? Well, in short it means the capital value has diminished and in some cases the dividend payments have not adequately compensated for the capital loss.

So, once again, the astute investor who sold a down-trending stock five or six years ago would not have been suffering from opportunity cost. They could have been earning an income from an alternative investment (either a different stock or different asset class), and maintained the value of their investment capital.

Conclusion

The charts can tell us much about the underlying sentiment and opinions of market participants, and whether they think the price of a security should be higher or lower. With the right tools we can also hunt out the stocks that offer good dividends. But at the end of the day it is possible that seeking out the dividend is not the whole story for the best possible performance, and for the protection of our capital.

About the author

Robert Brain is a sharemarket analyst and nimble short-term investor, and runs [Brainy's Share Market Toolbox](#), a web-based business supporting investors and traders. He is a national director of the Australian Technical Analysts Association (ATAA) and vice-president of the Melbourne ATAA Chapter. The charts shown here are produced using the Australian [BullCharts](#) charting software. Robert Brain heads up the Australian BullCharts User Group.

About the Australian Technical Analysts Association (ATAA)

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From ASX

[ASX Charting Library](#) has a wealth of material on technical analysis.

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