

Green and Growing Income

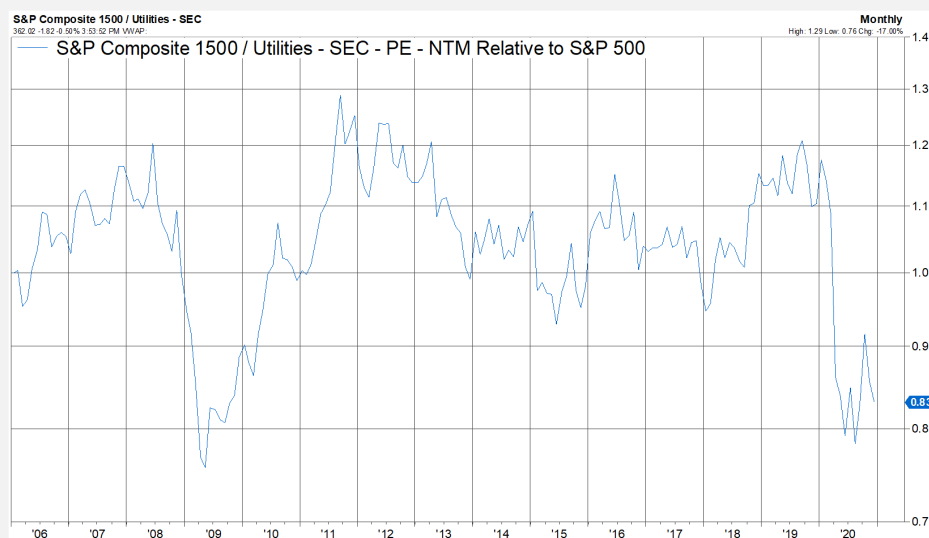
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Utilities meet several objectives within Crawford Investment Counsel portfolios, including attractive current income with low earnings variability as well as a growing environmental, social, and governance (ESG) focus. The consistency found within utilities is a function of the fact that it is a regulated industry that enjoys fairly constant and growing demand. This steady growth helps foster modest yet predictable dividend growth.

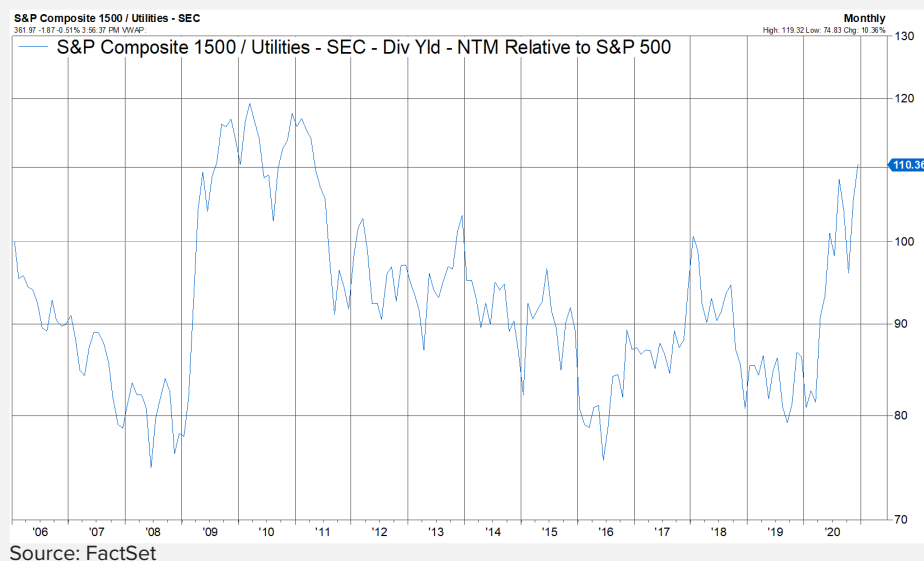
But first, a quick refresher on utilities. At Crawford Investment Counsel, we primarily focus on regulated utilities. This type of utility is regulated by the respective state commission where they do business. Most aspects of the company are set via local commissions that determine the range of returns each utility is allowed to earn including its capital structure and any revenue increases. This helps ensure that not only the company and shareholders earn an attractive return but also ensures an essential service is delivered to customers at a fair price. Most regulated utilities are vertically integrated, meaning they generate their own power, transmit the power through company-owned lines, and distribute the power to consumers and businesses.

Heading into 2021, the utilities sector is particularly attractive from a valuation and income perspective. As shown below, utilities are attractively valued versus the S&P 500 and U.S. Government Bonds. In fact, utilities have not been this cheap relative to the S&P 500 outside of the Great Financial Crisis in 2009. Consequently, utility dividend yields are materially higher than the S&P 500's dividend yield and U.S. Government Bond yields.



Source: FactSet

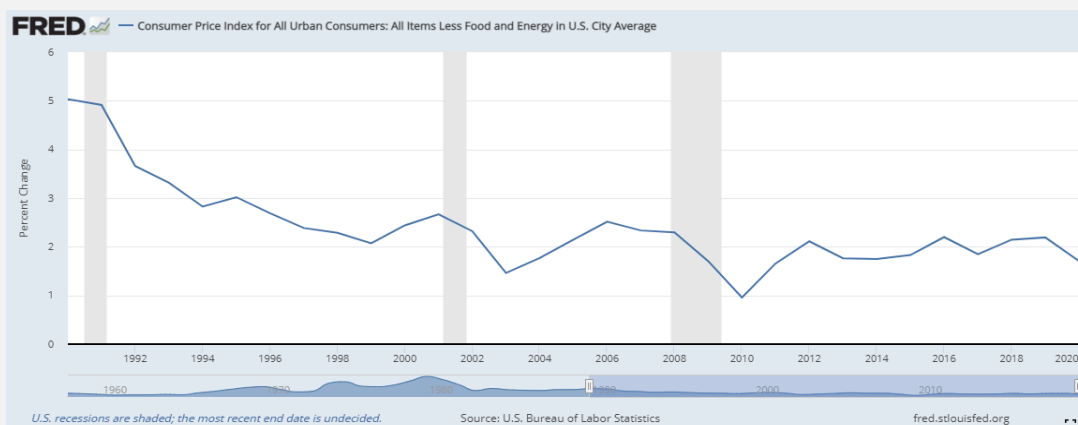
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Bad Debts and Inflation Fears

Due to the pandemic, some state regulators banned customer cutoffs for non-payment, which negatively impacted the sector. However, most utilities have recovery mechanisms in place or are working with regulators on recovery of these bad debts via future rate case filings with regulators. We believe this issue will be resolved in 2021.

Fears of inflation have also impacted sentiment for utilities from time to time, but we continue to believe the data does not support it. As shown below, the U.S. Consumer Price Index (CPI) has been in a downtrend since 1990. As a result, the Federal Reserve has indicated it will keep the Federal Funds rate at zero until they reach their objective of 2% average CPI. This is relatively bullish for higher-yielding securities such as utilities.



Coal Burn Out

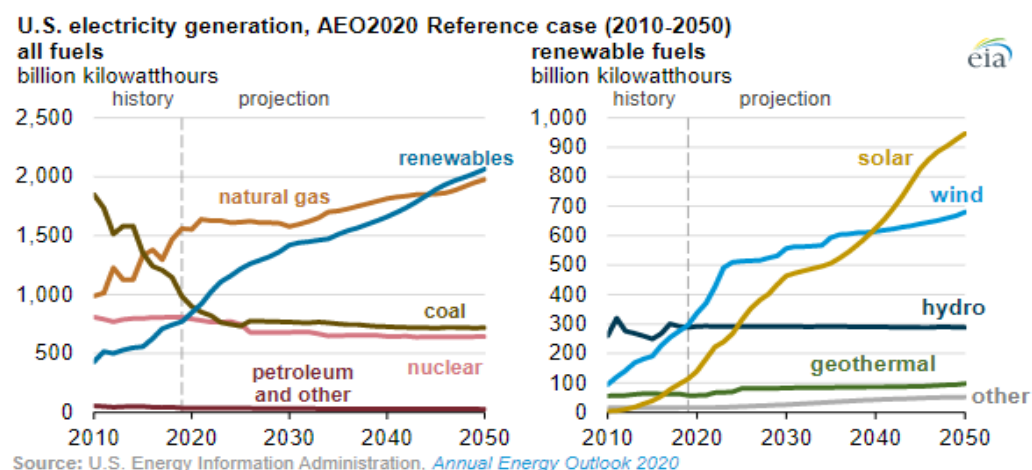
In 2000, coal was 50% of the U.S. fuel source for power generation, which has been cut in half today. In 2019, natural gas accounted for 38% of the nation's electricity, followed by coal at 23%, nuclear at 20%,

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wind at 7%, hydroelectric at 7%, and other renewables at 4%. According to the US Energy Information Administration (EIA), power generation from renewables will surpass coal for the first time in 2021. While a huge accomplishment in and of itself, utilities earnings will also increase from these investments. Utilities are achieving cost savings from retiring inefficient coal plants and replacing them with a free generation source, namely the sun and wind. As a result, consumers are not getting a large increase in power bills due to these conversions. This is a true win-win-win scenario.

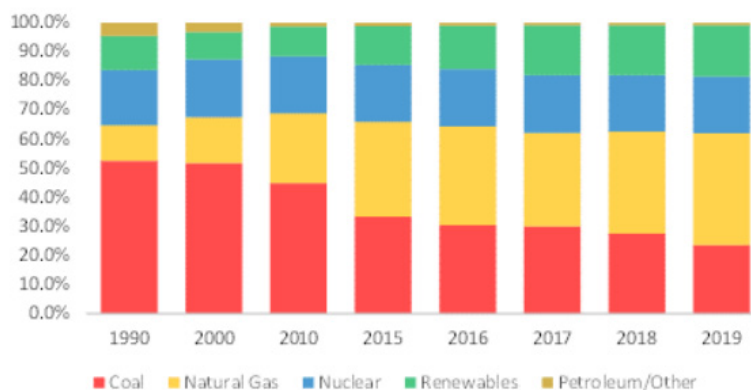
In summary, utilities meet all of the objectives we seek to realize at Crawford Investment Counsel. Utilities provide a growing current income stream at a reasonable price as well as a focus on sustaining and improving our environment.

EIA expects U.S. electricity generation from renewables to soon surpass nuclear and coal



Rapidly Changing Electric Fuel Mix

US Generation by Fuel Source



Source: EIA