41 Consecutive Dividend Hikes Since 1972… and Counting

Description

Iced_power_lines Image not found or type unknown It's telling that Chief Executive Stanley Marshall opened his remarks at **Fortis's** (TSX: FTS) annual shareholders' meeting last month with a reference to the company's dividend history.

"Fortis has increased its annualized dividend to common shareholders for 41 consecutive years — which is the record for a publicity traded company in Canada."

Don't expect him to stop now.

Since starting its current dividend growth campaign over four decades ago, Fortis has demonstrated its resilience by hiking its payments to shareholders.

Think of everything that has happened since that time — recessions, inflation, wars, and assorted stock market bubbles and financial crises. Yet the company has been steadfast in its commitment to rewarding investors.

The past decade in particular — thanks to a combination of acquisitions and organic growth — have been especially rewarding for dividend investors. Over that time the company's distribution has soared more than 135%, to an quarterly payout of $0.32 per share from $0.135 in 2004.

While shareholders shouldn't count on such massive hikes in the the future, analysts expect the dividend to continue to growing.

Fortis's irreplaceable assets are a big support. Another company can't simply come along and build a competing utility business. It's firms that have this kind of competitive advantage that can generate superior profit margins and strong free cash flows, putting them in a better position to reward shareholders through dividends and share buybacks.

New projects and acquisitions could also fuel further earnings growth and dividend increases. In June, Fortis completed the acquisition of CH Energy Group, which serves 75,000 gas and 300,000 electric customers in New York State. The company's ambitious $6 billion capital budget over the next five years will also provide a big boost to profits.

Is Fortis a sure thing? Hardly. Falling regulated rates of returns on its utilities, weak mergers and acquisition activity, and the confiscation of its electric utility in Belize have all took a taken on the stock.

Many analysts are concerned that the company gave away too many concessions to complete its CH Energy acquisition. To ensure regulators approved the purchase, Fortis had to offer inducements including $50 million of financial benefits to customers, job guarantees for four years, and a rate freeze until 2015. Now the deal won't provide a boost to earnings until 2015, rather than this year as originally promised.

Rising interest rates are another threat. Because you can time your watch to the cash flows of utilities, these stocks are almost substitutes to bonds. But that means they're hammered more so than other stocks when rates begin to rise.

That said, Fortis shares — which currently yield about 4.0% — offer a tempting combination of yield, safety, and growth. That's a recipe for outsized returns over the long haul.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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