3 Reasons Why Fortis Inc Has a Better Dividend Than Crescent Point Energy Corp

Description

In Canada, there are plenty of stocks that offer a very high dividend yield — especially in the energy patch. However, many of these dividends can be dicey, perhaps because they exceed net income, so you have to be very careful before adding these companies to your portfolio.

To illustrate, below I compare the dividends of two companies: energy producer **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG) and utility **Fortis Inc** (TSX: FTS). Crescent Point has what seems like a wonderful dividend, yielding 6.3%. In contrast, Fortis yields only 3.8%.

However, Fortis arguably has the better dividend of the two. Below I take a look at three reasons why.

1. A more stable industry

For starters, Fortis operates in a much more stable industry than Crescent Point does. More specifically, Fortis will enjoy plenty of demand as long as we all need electricity, but Crescent Point's fortunes are tied to oil prices, cost inflation, and execution when developing new projects. If any of these things go against the company in a big way, the dividend might not be on sound footing.

This kind of thing should not be forgotten when looking at dividend stocks, because the last thing you want is a dividend cut, especially if you are relying on the income.

2. A more affordable dividend

One also has to compare the payout ratios of the two companies. On one hand, Fortis devoted about 70% of its income to dividends last year, and over its history this rate has never gone above 90%.

Crescent Point is a different story. The company made $0.37 per share last year in income, and $0.58 per share in free cash flow. Yet the company pays a dividend of $0.23 per month. How is the company able to afford this?

To put it simply, Crescent Point encourages its shareholders to take their dividend in shares rather than cash, even giving them a 5% incentive to do so. As a result, its share count increased by nearly 20% in each of the past two years.

This also means that if you buy Crescent Point shares, you're better off receiving your dividend in shares to take advantage of the incentive. If you'd rather get a cash dividend, you should probably look elsewhere.

3. A better track record

This last point ties in perfectly with the first two. Because Crescent Point operates in such a volatile industry and pays such a steep dividend, it has much less flexibility. In fact, Crescent Point has only raised its dividend once since 2006.

Meanwhile, Fortis has raised its dividend every year for over four decades. All of a sudden, the company's 3.8% yield starts to look very attractive indeed.

At the end of the day, when searching for dividends, it's important to remember that greed is bad. In other words, you don't just want to find the highest yield. That can lead to trouble down the road, and this is a perfect example.

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