



Why Fortis Inc Is a Buy-and-Hold Dividend Champion for Your Retirement

Description

Building a stock portfolio for retirement requires some special considerations. Key among them is identifying companies that pay sustainable dividends and possess a wide economic moat, protecting their ability to grow revenue and boosting their bottom lines.

An economic moat is the ability of a business to maintain a competitive advantage over its peers in order to protect its long-term profits. Typically, companies with wide economic moats are found in industries with significant barriers to entry. Wide economic moats also occur when a company or group of companies has been able to establish monopolistic or oligopolistic control. These companies also typically provide goods or services with relatively inelastic demand, such as oil, electricity, banking and payment services, and telecommunications.

One of my favorite industries for identifying buy-and-hold dividend champions is the utilities sector, and my preferred option is **Fortis Inc** ([TSX: FTS](#)). Here's why.

Solid ongoing operational and financial results

Unlike its competitor **TransAlta Corporation** ([TSX: TA](#))([NYSE: TAC](#)), which has been bleeding red ink for the last two consecutive years, Fortis continues to deliver solid financial results. The company now pays a juicy dividend yield of 3.9%. Although this is lower than TransAlta's yield of 5.6%, Fortis has a very sustainable payout ratio of 84%. However, more compelling for investors is that its dividend consistently continues to grow, with a healthy compound annual growth rate of 4% over the last five years.

More importantly, its revenue and cash flow also continue to grow, with both rising a massive 266% and 51% respectively for the second quarter of 2014 when compared to the same quarter in the previous year. The key driver of this significant growth has been higher electricity sales and gas volumes, which will continue over the long term as the demand for energy grows. This bodes well for the sustainability of the company's dividend yield, as well as the possibility of a future dividend hike. The strong revenue growth also further supports the appreciation of the company's share price.

A wide and multi-faceted economic moat

As mentioned above, Fortis possesses a wide economic moat as the utilities sector has significantly high barriers to entry. Furthermore, energy, especially electricity, is an important component of our modern lives, powering virtually everything we do. This makes its demand inelastic, virtually guaranteeing continuing revenue for Fortis.

More importantly for long-term investors, Fortis continues to expand its franchise and strengthen its economic moat, with it currently working on completing the acquisition of **UNS Energy Corp** in Arizona. Upon closing, the transaction will boost the company's customer base by an additional 657,000 electricity and gas customers, primarily in the state of Arizona.

The transaction is expected to close upon approval being granted by the Arizona Corporation Commission. Upon completion, this transaction will significantly boost the company's revenue, and ultimately, its bottom line.

For all of these reasons, Fortis Inc is a long-term buy-and-hold dividend champion for any income- or retirement-focused portfolio, with investors set to be rewarded with a juicy dividend yield as the share price appreciates over the long term.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:FTS (Fortis Inc.)
3. TSX:TA (TransAlta Corporation)

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Date

2025/08/27

Date Created

2014/08/26

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