



Why Agrium Inc. and Fortis Inc. Belong in Your Retirement Portfolio

Description

Investors selecting stocks for retirement need to adopt a different approach than young investors just starting out. Whereas a millennial may look more towards growth stocks, someone entering retirement needs the right blend of income, capital preservation, and growth.

How to tell if a stock has these three characteristics? For income, an investor needs to look not only at dividend yield, but also the dividend growth rate. Companies with dividend yields that aren't exceptionally high but growing are ideal here. These businesses are still investing capital into their business to grow, but also rewarding shareholders with growing income over time.

You also need stable businesses that will produce steady or growing earnings so that your portfolio can support you for years to come. These businesses are usually large, dominant players in sectors that produce things we will always need, like electricity and fertilizer.

Two stocks that fit these criteria perfectly are **Fortis Inc.** ([TSX: FTS](#)), and **Agrium Inc.** (TSX: AGU)(NYSE: AGU).

The case for Fortis

Fortis is Canada's largest investor-owned distribution utility company. With \$17.9 billion in assets, spread out through Canada, the United States, and the Caribbean, Fortis has a dominant market position in one of the most secure industries: electrical distribution.

Regulated electric utilities like Fortis enjoy natural monopolies and a wide economic moat. Building an electricity distribution network is extremely capital-intensive, so once one company is serving a particular geographic region, these companies can enjoy near-monopoly status, which in turn allows these companies to control pricing, resulting in high gross profit margins like Fortis' current 59% margin.

In addition, the demand for electricity is constant and growing. Not only is Fortis protected from extensive competition, it is also insulated from demand-based risk, as electricity demand remains roughly static regardless of economic conditions.

The benefits of the economic moat Fortis enjoys are passed down to shareholders, and this is reflected in Fortis' incredible 41 years of consecutive dividend growth.

With a healthy yield of 3.71%, a track record of dividend growth, and an upcoming five-year, \$8 billion capital program, Fortis shareholders can expect a nice blend of growing income and growing share price, with very low risk.

The case for Agrium

Agrium is a large wholesale producer and distributor of fertilizer, and retail supplier of agricultural products. The UN predicts that in the next 30 years, the global population will rise by 3 billion, life expectancies will grow, and climate conditions will result in more difficult growing conditions.

As a result, a huge increase in fertilizer will be required to grow more food, and in more difficult conditions. Agrium is prepared to profit from these conditions as one of the world's largest fertilizer companies. In addition, Agrium differs from its competition in that it is the largest agricultural retailer in the world with 50% of gross profits coming from its retail segment.

Agrium excels ahead of its peers as a dividend payer, and this is a main reason why it stands out as a retirement stock. It pays an above-average yield of 3.12%, has demonstrated a 2,700% dividend growth rate since 2009 (from \$0.11 to \$3.00 per share), and has a low payout ratio of 34%. This will be sustainable due to Agrium's diversified business model and growing free cash flow.

This diversified business model (which includes a large and growing retail segment), allows Agrium to remain profitable even when fertilizer markets are weak, and protects large portions Agrium's revenue from its competition that do not have retail segments and that receive close to 100% of revenue from fertilizer sales.

These factors make Agrium, like Fortis, the right blend of safety, growth, and income. With these two stocks in your portfolio, you can be sure you are well positioned for the long haul.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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