Fortis Inc.: A Dividend Chart Every Investor Must See

Description

Successful dividend investing is not difficult, yet many yield-hungry investors are caught off guard by dividend cuts that have a negative impact on their income. The surge in the number of companies in the energy patch cutting their dividends because of the rout in crude prices has brought the spotlight firmly onto the fundamentals of dividend investing.

The important requirement is to invest in companies that have sustainable and steadily growing dividends for the long term. Typically, these companies have a solid competitive advantage as well as stable and growing earnings.

One company that stands out for all of these reasons is Canadian electric utility **Fortis Inc.** (TSX:FTS).

So what?

Fortis is one of Canada's largest generators of electricity. It has power-generating assets composed of nine regulated utilities businesses serving more than 3 million customers in Canada, the U.S., and the Caribbean.

The size and breadth of this business makes it extremely difficult to replicate. This is because the costs associated with acquiring and developing electricity generating assets and their supporting infrastructure is immense. This along with major regulatory hurdles creates immense barriers to entry, thereby reducing competition and giving Fortis a wide economic moat that shields its earnings.

Furthermore, regulated utilities account for 90% of Fortis' power-generating assets and this guarantees Fortis a sound earnings base. More importantly, with electricity a key ingredient powering our modern lives and economic activity, its demand is virtually unchanging.

All of these factors contribute to giving Fortis' consistently growing and stable earnings, which bodes well for its growth prospects even in times of economic instability.

Fortis has also been busy reinforcing its economic moat and increasing the potential for earnings growth by making a number of acquisitions for its electric utility business. These include the 2014 purchase of a 413 megawatt share in a natural gas fired power station in Arizona and the acquisition of UNS Energy Corp. earlier the same year for $4.5 billion.

Fortis also has a non-utilities business composed of 23 hotels and 2.8 million square feet of commercial real estate, helping to diversify Fortis' income stream, although it currently considering the sale of these assets. The sale could either be by way of a direct sale or an initial public offering and it is believed it could raise up to $1 billion.

This has the potential to unlock considerable value for shareholders, with the proceeds to be directed to further asset acquisitions in Fortis' electric utility business.

Now what?

For all of these reasons Fortis has a long history of earnings growth that translates into a steadily growing dividend. In fact, Fortis has rewarded investors with a dividend that grown in value for almost every year since commencing in 1972.

You only need to look at the chart below to see how impressive Fortis' dividend growth has been.

FTS Dividend Chart 020215

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Source: Fortis Investor Relations.

As you can see Fortis hiked its dividend yet again for 2015 by 6.25% giving it a juicy 3.3% yieldcoupled with a sustainable payout ratio of less than 100%. More impressively, Fortis' dividend sinceinception in 1972 has an impressive compound annual growth rate of 7%, which is higher than theaverage annual inflation rate for the same period.

Everything points to Fortis being able to continue hiking its dividend at an impressive rate because of its stable earnings and growing portfolio of power generating assets.

While Fortis may not be the most exciting stock to own, its solid competitive advantage, stable earnings history, and steadily increasing dividend make it a core holding for any income focused portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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