



Fortis Inc.: a Focused Dividend Company for You

Description

At the end of June **Fortis Inc.** ([TSX:FTS](#)) announced that it sold its commercial real estate properties for \$430 million to **Slate Office REIT**. At the same time Fortis subscribed for about 4.7 million units of the REIT for \$7.40 per unit, totaling approximately \$35 million. This purchase represents roughly 15.5% of the REIT's outstanding trust units.

Fortis acquired the Slate Office REIT units for investment purposes, and depending on the situation, Fortis might occasionally buy more units or sell some units.

Slate Office as an investment

If you were to look at Slate Office REIT as an investment, you'd see that it yields over 10% today. The REIT is focused on high-quality downtown and suburban office properties that are often overlooked by large investors. Many of these office properties can be acquired at significant discounts and have stable operating fundamentals.

This creates an opportunity for Slate Office. Investors can be sure there's management alignment because the Slate Asset Management L.P. owns about 20% of Slate Office REIT.

For Fortis, I believe selling its commercial real estate properties and then using about 8% of the proceeds to buy Slate Office is a sound investment. Firstly, Fortis now has more cash on hand to invest in utility assets, its area of competency. Secondly, it is investing in some Slate Office units for a steady monthly income equating a 10.1% yield. Thirdly, Slate Office is managed by a professional team, and its office assets have potential to rise in value, which will eventually reflect in its unit price.

What does this mean for investors?

In light of Fortis's recent developments, you should not buy Fortis simply because it has exposure to Slate Office REIT, and this is because it's only a small investment in Fortis's portfolio compared to what Fortis has to offer. If you want exposure to the office REIT, you should directly invest in Slate Office and reap the juicy 10% yield yourself.

Here's what Fortis offers: it is a leading electric and gas utility with total assets of roughly \$28 billion. In fiscal 2014 it brought in revenue of \$5.4 billion. Its regulated utilities serve more than three million customers across Canada, the United States, and the Caribbean.

Fortis continues to focus on its core business

Fortis is about to shed its hotel assets for \$365 million. This transaction is expected to complete in the fall of 2015. This sale will further allow Fortis to focus on its core utility business. Fortis's assets will virtually consist of only regulated utilities and long-term contracted energy infrastructure after this transaction closes.

In conclusion

With Fortis shedding its non-core assets and focusing on its core utility business, it is becoming a leaner and better company. Further, its shares aren't expensive. At about \$35 per share, it's selling at a multiple of 18, and it yields almost 3.9%. The dividend increase expected next January should bring the yield to over 4%. So, Fortis is an excellent choice for income investors looking for stable and steady growth.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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