Yawn All the Way to the Bank With Fortis Inc.

Description

Over the last six months, it's been a tough time for Canadian investors. It seems like everything is down. The TSX Composite is down nearly 18% over that time and is approaching a 25% loss from highs last set in 2014.

There's every indication this volatility is going to continue, too. Commodity prices keep slipping. Persistently low interest rates are hurting the banks. And news from China seems to be getting more bearish by the day. It's little wonder why many investors are shunning former high-flyers in favour of the tried and true.

Fortis Inc. (TSX:FTS) is one such "boring" stock. Here's why it makes sense to ride out the storm in its shares.

Decent value

Fortis has really been helped by its U.S. assets. As the Canadian dollar continues to depreciate against the greenback, steady results in local currency start to look really good when converted back to Canuck bucks.

In its most recent quarter, Fortis delivered profits of $0.54 per share–a huge improvement over the $0.06 per share posted at the same time last year. Sure, last year's results were weighed down by special items, but operating income still more than doubled. And Fortis was still able to deliver that impressive per-share earnings growth even after issuing nearly 70 million shares to pay for the acquisition of those U.S. assets.

Shares currently trade at 14.6 times trailing earnings, a number which is a little skewed because of a one-time gain from its real estate portfolio. Stripping out that item, shares are at approximately 18 times earnings, which is still a reasonable valuation for a company that's become almost a bond-like substitute.

That dividend

Fortis's dividend is a big reason why most investors are in the stock.

Who can blame them? Fortis currently holds the championship for being the Canadian company with the longest streak of dividend increases. The company has delivered dividend growth for 42 consecutive years, starting in 1973. That's the kind of commitment dividend-growth investors like to get behind.

There's every indication this streak will continue for years to come. Analysts expect Fortis to earn $2.17 per share in 2016, putting the payout ratio at a comfortable 70%. As long as Fortis can continue to grow earnings at a pace slightly higher than inflation–a task that doesn't seem particularly hard–then it can continue to give investors their annual raise.

Plus, Fortis offers a great current yield to go with that growth. Current weakness in the price has pushed the yield up past 4%–something that doesn't happen very often.

Stability

Fortis isn't nearly as volatile as the overall market. According to Google Finance, it has a beta of just 0.04, making it one of the most stable stocks out there.

If you need more evidence, just look at the stock price. Over the last year, shares are down only 7.2%, less than half of the decline of the overall market. If you include dividends received during that time period, the stock is barely down at all.

As I write this, the TSX Composite has lost 7.4% thus far in 2016. Fortis has lost just 1%. That's the kind of stability that looks really good in a portfolio right about now.

Stocks like Fortis are usually shunned during good times. They're boring, so investors are more likely to own something sexier. It's times like now when the reason for owning Fortis becomes painfully obvious. Its stability and consistent dividend growth make it the perfect boring stock for today's tumultuous times.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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