



Fortis Inc.: What Does the Big Acquisition Mean for the Dividend?

Description

Fortis Inc. ([TSX:FTS](#)) is one of Canada's most popular dividend stocks, and for good reason. The utility giant has increased its dividend every year for the last 42 years, which is the longest streak of any publicly traded company in the country.

Fortis has maintained this streak for two reasons. First of all, the company has been well managed. Secondly, the company operates primarily in regulated markets, which ensures that both revenue and cash flow stay nice and smooth.

But more recently, shareholders have gotten a bit nervous. Fortis has just announced a US\$6.9 billion acquisition of Michigan-based transmission company **ITC Holdings Corp.** ([NYSE:ITC](#)), and shareholders were not particularly happy. Fortis shares sunk by more than 10% that day.

But shareholders shouldn't be so upset, because this transaction is actually a positive for the dividend. We take a look at why below.

The rationale

It's easy to see why shareholders are feeling antsy. In addition to the US\$6.9 billion price tag, Fortis will also assume US\$4.4 billion of ITC's debt, making this acquisition a very big bet.

But there is plenty of good news. First of all, the transaction should increase earnings per common share by 5%, excluding transaction costs. Secondly, Fortis's revenue will be more diversified as ITC's operations will increase Fortis's presence to include an additional eight U.S. states.

Importantly, ITC's rates are regulated by the Federal Energy Regulatory Commission, which usually allows for better rates of return than state-regulated lines. So Fortis's low-risk profile should be preserved.

Fortis also notes that there are plenty of long-term growth prospects from the ITC acquisition, mainly because there is much need for additional power transmission infrastructure.

Interestingly, Fortis's shares also dropped after its last major deal when it acquired UNS Energy Corp. for US\$4.5 billion. But Fortis has since been vindicated on that deal, and history will probably repeat itself in this case.

Is Fortis a buy at this point?

After the fall in Fortis's share price, the stock now yields 4%. Keep in mind that this dividend has been rock solid for over four decades and that Fortis hopes to grow the payout by 6% per year to 2020.

So if you're looking for some steady income, Fortis remains a fantastic option for your portfolio.

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