Yawn All the Way to the Bank With Fortis Inc. and Telus Corporation

Description

Good investing is supposed to be boring.

As much fun as it is telling stories about catching the latest high-flyer just before it went parabolic or shorting a stock everybody hates, I'm not sure that's an approach the average investor should take. Most retail investors don't have the research abilities to accurately identify such opportunities.

Instead, I continue to advocate a tried-and-true approach for the average investor. Find companies with an identifiable moat. Buy shares whenever they're fairly valued. And make sure to reinvest dividends, either back into the company using a dividend-reinvestment program or into other opportunities. If investors do this over the long term, most will be pretty happy with the results.

Holding Canadian blue-chip stocks has been a pretty decent strategy over the last 50 years. There's no reason to believe it won't continue to do well over the next 50.

The only question Canadian investors have to ask themselves is, which stocks are decent buys at today's levels? Here's the case for **Telus Corporation** (TSX:T)(NYSE:TU) and **Fortis Inc.** (TSX:FTS).

Telus

There's a lot to like about Telus.

Let's start with one of the company's smaller divisions: television. Telus's main rivals are reporting a steady decline in television subscribers, which they're saying is caused by customers cutting the cord. But Telus is actually gaining customers, adding 26,000 in a recent quarter alone. It's doing this by offering aggressive sign-up bonuses, free TVs for customers who sign up for a three-year contract, and by expanding its service area into smaller communities.

The wireless business gets plenty of love from investors, and rightly so. Telus manages to gain subscribers while slowly getting higher rates from existing customers. Telus also does a terrific job retaining its customers, posting a churn rate of below 1% for the ninth consecutive quarter.

Telus is never going to be a cheap stock. Shares currently trade hands at 17.2 times earnings, which is a reasonable valuation, but hardly cheap. Shares get cheaper if you look at forward earnings; Telus has a forward valuation of 14.6 times what analysts expect 2016 earnings to be.

Dividend growth is also stellar. In 2009 Telus paid a dividend of $0.238 per share on a quarterly basis. It has raised it every six months since the beginning of 2010 for a total of 12 separate dividend hikes. These days the quarterly dividend is $0.44, but that should be going up pretty quickly. That's good enough for a 4.5% yield today.

Fortis

Speaking of dividends, Fortis is Canada's undisputed dividend champion. The provider of power and natural gas for millions of homes in Canada, the United States, and the Caribbean has hiked dividends annually since 1973, when it paid a split-adjusted $0.0875 annual dividend. This year's expected dividend will be $1.50 per share, and that's even before the inevitable raise. It's only a matter of time before it comes.

Fortis shares are temporarily beaten up because it recently announced it was going to buy U.S. electric transmitter **ITC Holdings Corp.** (NYSE:ITC) for US$11.3 billion, which includes US$4.4 billion of assumed debt. Fortis shares fell more than 10% on the news because the company announced it was issuing approximately 115 million shares to pay for the transaction at a price lower than the current market price.

This isn't Fortis's first big acquisition. Since 2003 the company has spent more than US$10 billion on acquisitions, which all have worked out pretty well. This deal will make Fortis one of North America's premier utility companies when completed.

Since ITC operates in fully regulated areas, cash flows should be very steady. Fortis's management team predicts the deal will add 5% to the company's earnings per share even after accounting for the share dilution. That's good news for the folks who own the company for the dividend.

Including dividends, Fortis is up approximately 10% annually over the last decade, which easily outperforms the TSX Composite. There's no guarantee that performance will continue, but I wouldn't bet against a company with the kind of history Fortis boasts.

CATEGORY

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2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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