



Fortis Inc.: A Growing Income Play for Investors

Description

There's a belief among some investors that the reason companies pay a dividend is because they are sitting on a lot of money and there are no new ways to grow, so they might as well distribute it. Investors enjoy the days when we receive our dividend cheques because it means we can reinvest in other assets or perhaps pay some of our bills with it.

One company has been building its growth through acquisitions while still paying a lucrative dividend: **Fortis Inc.** ([TSX:FTS](#)) is the largest utility owner in Canada with holdings in the United States that serve a total of over three million customers. Broken down, the vast majority of its asset mix is regulated with 26% in natural gas and 70% in electricity, and a small 4% in hydroelectric-generation operations that are long term.

What sets Fortis apart from other utilities is its acquisitive nature. In 2013 Fortis bought Arizona-based UNS Energy for US\$4.5 billion. Now the company is looking to make an even bigger play with the recently announced target of **ITC Holdings Corp.**, which Fortis is trying to buy for US\$11.3 billion. Should this acquisition go through, Fortis would have bought the biggest pure-play transmission independent company in the U.S.

Naturally, investors are worried about all of these acquisitions, especially because of the debt that comes with these companies. Fortis management believes that it will see a 5% accretion to earnings in 2017. And if the UNS acquisition is anything to show, the company knows how to handle these sorts of big purchases.

To prove that, Fortis knocked its earnings out of the park in 2015. Its net income was \$589 million, which was \$195 million higher than in 2014. That's a significant amount of growth. There were two reasons for that. The first is obviously UNS. The second has to do with how much stronger the U.S. dollar is in comparison to the Canadian dollar. So long as the two currencies don't reach parity, Fortis will see increased income due to its U.S. operations.

But what really matters to investors is the dividend. As I said above, Fortis is in a unique position, where it can spend a significant amount of its money on acquisitions while still paying a very lucrative

and handsome dividend.

Presently, the company pays approximately \$0.38 per quarter, which gives the stock a significant but stable 3.67% yield. However, what matters more to me is that the company is notorious for increasing that dividend. For 43 consecutive years, Fortis has increased the dividend. In September 2015 it increased the dividend again by 10.3%.

On top of that, the company expects to increase the dividend by at least 6% every year until 2020. We don't know what the future holds, but if the company can see a 5% growth to earnings in 2017 due to the ITC Holdings acquisition, I see no reason why the dividend can't grow along with that.

All told, I believe Fortis is one of those rare companies that is able to grow intelligently and also reward investors with lucrative dividends. If you're looking for income, this stock might just be the pick for you.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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