



2 Reasons to Love Fortis Inc.

Description

Many of you use **Fortis Inc.'s** ([TSX:FTS](#)) products and services, but did you know Fortis has nine utility operations with about 3.2 million electric or gas utility customers?

In fact, Fortis has become one of the top 25 utilities in North America, and it has about \$28 billion in total assets. Last year the utility earned \$6.7 billion of revenue.

Steady acquisitions to reduce risk and enhance growth

Fortis has an excellent track record of making acquisitions and integrating them successfully. In the last decade or so it made major acquisitions, including acquiring FortisAlberta and FortisBC's electric operations for \$1.5 billion in 2004, FortisBC's gas operations for \$3.7 billion in 2007, Central Hudson for US\$1.5 billion in 2013, and UNS Energy for US\$4.5 billion in 2014.

As a result, from 2004 to 2015 Fortis increased its earnings per share by 6.9% on average per year. This is an above-average growth rate for utilities.

Because 96% of Fortis's assets are regulated, the utility's allowed return on equity from its utility operations is 8-10%. Currently, Fortis operates in six jurisdictions and earns 36% of its operating earnings from the U.S.

If you'd invested in Fortis at the end of 2004, Fortis would have generated annualized returns of 10.6% with an above-average dividend.

Fortis is working on its next major acquisition of roughly US\$11.3 billion—**ITC Holdings**. ITC is the largest independent fully regulated electric transmission utility in the U.S. and is led by a proven management team.

Fortis and ITC shareholders have already approved the merger. However, multiple regulatory approvals are still needed from the Federal Energy Regulatory Commission and state regulatory commissions. That said, Fortis anticipates the transaction will close by year end.

Strong dividend

Because Fortis's returns are predictable and consistent, it has taken the top spot as a dividend-growth company. It has increased its dividend for 42 consecutive years!

Fortis's payout ratio was 66% in 2015, which was lower than in the previous four years in which it had payout ratios of 70-73%.

Fortis is confident in its ability to continue growing its dividend; in 2015 it guided to increase its dividend per share by 6% on average per year through 2020.

At about \$43 per share, Fortis offers a safe yield of almost 3.5% that's about 23% higher than what a Canadian market index offers.

Conclusion

Fortis is a regulated utility that earns stable and predictable returns. So, investing in Fortis is a smoother ride compared to investing in the market or less-predictable stocks.

Fortis's dividend is also predictable. Its dividend has increased for more than four decades, and the company already guided to continue raising it by 6% on average through 2020. These will be healthy dividend hikes supported by organic growth and a sustainable payout ratio.

Putting it simply, Fortis is a rare gem and is especially a great buy on dips that result in a yield of 4% or higher.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/24

Date Created

2016/07/27

Author
kayng

default watermark

default watermark