The Top Sector to Look for Safe Dividends

Description

It makes sense to focus your energy on dividends because they're more predictable than stock prices. Companies can choose to maintain or raise dividends, but they can't control their share prices.

Some companies have a higher chance of maintaining stable dividends than others. If income is your priority, then you probably want to consider this company first.

Fortis Inc. (TSX:FTS) is a strong candidate for safe dividends. It is a leading North American electric and gas utility with assets of about $29 billion. Last year it posted revenues of $6.7 billion. Moreover, Fortis has about 94% of regulated assets that generate stable earnings.

Utilities: The top sector for safe dividends

Utilities tend to pay stable, growing dividends. Among the top five Canadian publicly traded companies with the longest dividend-growth streaks, three are utilities, and Fortis is one of them.

What makes a safe dividend?

Is the safest dividend the one that was just raised? A safe dividend is one that has been increased year after year with further increases expected to continue.

Fortis's virtually regulated business makes its earnings and earnings growth predictable because it already knows the expected return-on-equity range for its utility businesses.

Fortis just announced a dividend hike for its quarterly dividend. The dividend hike on Tuesday marked its 43rd consecutive year of dividend growth.

Specifically, Fortis hiked its quarterly dividend from $0.375 per share to $0.40 per share, a growth of nearly 6.7%. Its annual payout now equates to $1.60 per share. Its payout ratio is estimated to be about 68% for the next year.

Fortis's growth is so stable and predictable that it foresees hiking its dividend on average by 6% per year five years out through 2021! That's what a rock-solid dividend looks like.

Progress on the ITC acquisition

Fortis continues to make progress on its **ITC** acquisition. On Monday, Fortis achieved a big milestone–it gained approval from the Federal Energy Regulatory Commission (FERC) for the acquisition. Fortis has confidence that it can gain the remaining state approvals and close the transaction by the end of the year.

How Fortis benefits from ITC

ITC will enhance Fortis's regulatory diversity, geographic diversity, and business diversity. The new electric transmission business, with supportive regulation from the FERC and exposure to eight states in the U.S. Midwest region, will complement Fortis's electric and gas distribution business.

ITC has higher expected return on equity than Fortis's other utilities. Additionally, ITC will continue to be led by its strong, experienced management team and employees who have delivered annualized returns of 17.3% in the last decade.

Conclusion

Fortis did not disappoint. It hiked its dividend by 6.7% on Tuesday and expects to close the ITC transaction by year end.

The ITC acquisition will add to Fortis's growth and make the utility a stronger, more diversified company. Fortis has a sustainable dividend that investors can expect to grow year after year as it has for the last 42 years.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:FTS (Fortis Inc.)

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