



5 Reasons Why Fortis Inc. Is a Stable Investment

Description

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#)) is one of the most stable stock investments available. But all stock prices go up and down. The utility's share price has shaved off 11% from its recent high; could this be a buying opportunity to get in on this solid utility?

Before answering that question, here are five reasons why Fortis is a secure investment.

A regulated utility

Fortis is one of the top 15 utilities in North America and has 10 utility operations across the continent. The utility is a leading regulated electric and gas business with about 3.2 million electric and gas customers.

Because Fortis's returns on equity are regulated, it's a more stable and predictable investment than most. In a recent conference, Fortis revealed that its average annualized total shareholder return over the last 10 years was 9.55%. It had outperformed the S&P/TSX Capped Utilities Index by 2.88%.

The seemingly small difference in the returns percentage can make a huge difference over many years. Over the course of a decade, a \$10,000 initial investment in Fortis returned \$6,440.78 more than investing in the index.

utility power supply

A big dividend

Barring macro events such as a recession, Fortis typically has strong support at roughly a 4% yield. And the recent pullback to below \$40 per share pushes its yield to just over 4%.

A history of growing dividends

Fortis has increased its dividend for 43 consecutive years. With the predictability of its regulated assets, management anticipates growing its dividend per share by 6% per year on average through

2021.

A track record of acquisitions

Acquisitions can help a company grow and improve its financial performance. Fortis has a proven ability to integrate utility acquisitions successfully.

Since 2012 it has acquired Central Hudson and UNS Energy, which operate in the states of Arizona and New York, respectively. Most recently in October, Fortis closed the ITC acquisition.

A diversified portfolio

ITC is the biggest independent, fully regulated electric transmission utility whose rates are regulated by the FERC. So, the acquisition enhanced Fortis's regulatory diversity and simultaneously lowered its overall rate regulatory risk.

Moreover, ITC expands Fortis's footprint into eight states in the Midwest region in which Fortis didn't operate previously.

The ITC acquisition is the gateway for Fortis to participate in the growth of the U.S. electric transmission sector. Fortis plans to invest about \$1 billion via ITC through 2021, which makes up nearly half of its capital program for that period.

Fortis now has about 65% of its assets in the U.S. and earns about 61% of its operating earnings there.

Conclusion

Fortis is a leading North American utility with a stable growth profile. Its business is as strong and diversified as it has ever been after acquiring ITC.

At under \$40 per share, Fortis trades at a forward multiple of 18.2, which is a reasonable valuation for buying. Besides, at this price, investors can get a safe 4% yield that's expected to grow 6% per year, which indicates an estimated total return of 10%. Any further dips should be viewed as stronger opportunities to buy.

CATEGORY

1. Dividend Stocks
2. Investing

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