Fortis Inc. Is Anything but a Boring Utility Stock

Description

Utility companies have a reputation for being very boring investments. They kick off significant income because they tend to have a sort of monopoly in their region, but experiencing any sort of growth is quite difficult. That is, of course, unless you're **Fortis Inc.** (TSX:FTS)(NYSE:FTS), which is anything but a boring utility stock.

Recognizing that organic growth was not enough, Fortis has been an acquisitive company, moving south of the border to acquire utility companies in parts of the United States.

Its first big success was in 2012 with the US$1.5 billion acquisition of CH Energy Group: the holding company of Central Hudson–an energy company that provided 300,000 customers electricity and 75,000 customers natural gas throughout upstate New York. A year later, Fortis acquired UNS Energy for US$2.5 billion. This gave it significant exposure to southern Arizona and added 650,000 natural gas and electricity customers to the books.

These two deals, which cost Fortis US$4 billion, added over a million customers to the books and now account for 36% of the company's operating earnings.

The ultimate acquisition just closed last month when Fortis completed the takeover of ITC Holdings. This was a US$11.3 billion acquisition, far larger than any other. It makes Fortis one of the 15 largest North American public utilities by enterprise value. ITC operates 15,600 miles of high-voltage lines with a peak load exceeding 26,000 megawatts. It has operations in Illinois, Iowa, Kansas, Michigan, Missouri, and Oklahoma.

When Fortis's management was trying to convince shareholders to go through with the acquisition, they suggested that the acquisition would provide 5% earnings accretion in the first full year following close. And the earnings growth it can achieve should only become more predictable due to the nature of how utilities make money.

The vast majority of Fortis's earnings come from regulated sources, which means the government sets the rates. While this can limit organic growth to some extent, it also provides a lot of predictability for the company. Because it knows what its customers will pay, it is able to focus on reinvestment in the business, but it can also focus on returning value to its investors.

The dividend at Fortis is quite lucrative. It currently yields 3.94%, paying $0.40 per quarter. For 44 consecutive years, the company has increased the dividend. For example, in 2005 it paid $0.59 per year. Fast forward to 2015, the dividend was $1.40 per year. And now it pays $1.60 per year.

But management has no plans to stop dividend growth anytime soon. It expects to grow the dividend by about 6% per year on average through 2021. Therefore, there are five more years of dividend growth that investors should expect, making this a really lucrative opportunity.

All in all, Fortis is in a solid position to continue growing for some time, and investors looking for income are in a great position to profit. While the stock is a little on the expensive side, trying to time the market can mean missing out on opportunity. So I would suggest starting a position now, and if anything sends shares lower, get more aggressive with your buying.

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2. Energy Stocks
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jaycodon