Fortis Inc.: Is it Time to Buy This Amazing Dividend Stock?

Description

There has been talk that investing in utilities is risky because interest rates are starting to rise. But when it comes to **Fortis Inc.** (TSX:FTS)(NYSE:FTS), the predictable earnings far outweigh any sort of short-term drop.

Fortis is known for being quite aggressive with its acquisitions. However, utilities like Fortis also have a reputation for being quite safe due to their predictable returns. Since everyone needs electricity, Fortis is comfortable knowing it has a commodity that will always be in demand.

When interest rates are hovering so close to 0%, investors that would've normally put their money in bonds were forced to buy safe dividend stocks. Now that interest rates are beginning to rise, share prices might start coming down as investors move their funds into "safer" assets like bonds. So with this in mind, should you be buying?

To answer that, it helps to understand Fortis in more detail. Among all North American utilities, it is one of the top 15. It has operations in the Cayman Islands, the Turks and Caicos Islands, and Belize. It owns regulated utilities in five Canadian provinces. It owns assets in New York and Arizona and, with the recent acquisition of ITC Holdings Corp., it has expanded to Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, and Oklahoma.

The ITC acquisition was a US$11.3 billion acquisition, giving Fortis access to seven of those nine states listed above. At peak load, ITC can handle 26,000 megawatts across its 15,600 miles of high-voltage lines. Management expects that in its first full year following close, this acquisition can provide 5% earnings accretion. Before the acquisition, 36% of its operating earnings came from the United States; afterwards that number is 61%.

There are two reasons why I'm not too worried about Fortis when it comes to interest rates rising. First, while rates are starting to rise, they are moving slowly. We're not talking about 5% rates here; we're talking about 0.5-0.75% rates. While it's true that some might move out of Fortis for bonds, the returns from bonds are just not lucrative enough (especially when we recall that some bonds were getting negative interest rates).

Second, Fortis is a dividend juggernaut. For 43 consecutive years, it has increased the yield. And management believes it will be able to increase the dividend by 6% per year through 2021 on average. If the ITC acquisition will provide 5% accretion, Fortis just needs to find 1% more in organic growth to hit that target next year and, frankly, I expect it to be even better.

If you were to buy Fortis today, you'd be looking at a 3.95% yield. It currently pays $0.40 per share to investors, which comes out to $1.60 per year. In 2015, it paid $1.40 per year, and in 2013, it paid $1.28. It's clear that the company is consistent in paying its dividend, and that won't stop.

Here's where I stand on Fortis.

Shares might drop more if interest rates experience another increase next year. However, trying to time the market means you could miss out on a 4% yield that should continue appreciating. I'm not a market timer; if the investment thesis is there and the current price is fair, I buy.

Fortis is, in my opinion, a must-own dividend stock.

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