Generate a Lucrative Yield From Fortis Inc.

Description

Having just finished a book about the House of Morgan (the banking dynasty), I walked away with a very interesting lesson. While today's bankers are very risky, the bankers of yesterday were very conservative and cherished few things more than a company's ability to pay a generous dividend. That's why utilities are so well regarded by conservative income investors; utilities almost always pay a generous yield.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is in a unique position; not only can it pay a nice dividend, but it can continue to experience tremendous growth — both organically and through acquisitions — that allows the yield to get stronger. There are few things are exciting as receiving cash each quarter and knowing that the cash will be greater year after year.

There are two sides to Fortis that make it such an appealing dividend stock. On one side, there is the regulated income that comes from being in the utilities business. All told, it has 3.2 million electric and gas customers across five Canadian provinces, three Caribbean countries, and nine U.S. states. This predictable, regulated income makes the dividend secure.

But the other side is what makes it possible for the dividend to grow. Through a few timely acquisitions, Fortis has grown into one of the top 15-largest North American utilities. It did this by acquiring other utility companies — a behaviour that is not common in the boring utility business.

Fortis started making a number of acquisitions in Canada in the early 2000s, expanding from east to west. But it all changed in 2011 when it tried to buy the Central Vermont Public Service for US$700 million. It ultimately lost out, but it was committed to entering the U.S. market. Less than a year later, Fortis announced its intent to acquire CH Energy Group in New York for US$1.5 billion. Toward the end of 2013, it announced its plan to acquire UNS Energy Corporation in Arizona for US$4.3 billion.

Yet even this was not enough for the company. In October, Fortis finished its US$11.3 billion acquisition of ITC Holdings Corp., which allowed it to expand to Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, and Oklahoma. ITC can handle 26,000 megawatts across its 15,600 miles of high-voltage lines at peak load. Thanks to this acquisition, Fortis generates 61% of its operating earnings from the United States.

Talk about growth, right?

This is where the growing dividend comes in. For 43 consecutive years, the dividend has been increased. And management is on pace to increase it every year through 2021 by 6% on average. Currently, investors can expect $0.40 per quarter with a yield of 3.89%. I believe Fortis is primed to have a very strong 2017 as it continues integrating ITC into its business.

So, you get the two sides of Fortis by buying shares. On one side, you've got predictable income, so the dividend is secure. And on the other side, you've got a company making smart acquisitions and expanding its earnings, thus increasing the dividend. The House of Morgan may not have seen a company like this back in the early 1900s, but I imagine they'd be excited by its prospects.

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