



Could Fortis Inc.'s Impressive Dividend-Growth Streak Be in Jeopardy?

Description

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#)) is a terrific long-term investment that has provided impressive dividend growth over the last decade. It's one of the safest stocks trading on the TSX and one of the few stocks that didn't drop over 30% during the Great Recession. Despite being in a boring slow-growth sector, the company has managed to grow its earnings steadily over the long term via several growth initiatives. The company is a dividend-growth superstar, but can it continue to grow its dividend for the next decade?

Fortis has a stable 3.7% dividend yield that will be paid even during the worst of recessions. It doesn't matter how bad the economy gets, people will still need to turn the lights on. The company has 3.2 million electric and gas customers across the U.S., Canada, and the Caribbean.

It's very unlikely to see customers leave for another utility because it's not as simple as switching a provider like in the telecom business. The high customer retention comes with the nature of the business and allows the company to grow earnings in a very predictable fashion in the long run. In this regard, Fortis has a very wide moat in most of the areas it operates.

Fortis has made many acquisitions of other smaller utility companies over the years to expand its footprint and provide a nice boost to its bottom line.

Fortis's latest acquisition of ITC Holdings Corp. gives the company a huge presence in the U.S. and will allow the company to generate 61% of its operating earnings from the U.S.

There's no question that the company has a proven and predictable strategy of growth, and that's why the company has been able to increase its dividend for 43 straight years. I believe Fortis will continue to grow through acquisitions over the next few years, so it can keep this impressive streak alive.

Utilities are entering a new age of uncertainty

There will be challenges in the decade that could end the impressive streak of dividend increases. There are third-party energy products available to the public that will allow households to go completely off the grid. The **Tesla Motors Inc.** ([NASDAQ:TSLA](#)) Powerwall is an example of such a product which

could hurt the long-term profitability of traditional utility companies such as Fortis.

Technology like the Powerwall is becoming cheaper and more efficient as time goes on, so it's possible that such a product could disrupt Fortis's ability to grow its dividend for another 10 years. Elon Musk said in a presentation that traditional utilities could lose up to one-third of their business. If you're a long-term utility investor, then this has got to be ringing alarm bells.

I believe that products like the Powerwall will pose a real threat to the utility companies over the next decade. Energy consumers will be able to power their homes through solar power and will not need to depend on the grid.

I wouldn't go as far as selling all of my utility companies, but it might be a good idea to start trimming your stake before the Powerwall gains popularity in the mainstream and starts affecting the earnings of utility companies.

Fortis is a bit expensive right now with a 21.9 price-to-earnings multiple and a two price-to-book multiple, both of which are more expensive than the company's five-year historical average multiples of 20.4 and 1.6, respectively. If you're an income investor, I would look elsewhere because there's no value to be had here, and there's a huge long-term headwind in the Tesla Powerwall and products similar to it.

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Author

joefrenette

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