



Why Is Fortis Inc. a Top Stock for Conservative Investors?

Description

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#)) is a darling among long-term dividend investors. Here's why.

Utilities tend to be conservative investments

Dividend investors tend to be conservative investors. After all, they aim to earn dividend income from their investments while expecting their investments to steadily appreciate over time.

Utilities are among the most conservative businesses available. They tend to generate consistent cash flows from providing essential services. In turn, they tend to pay out a big portion of their cash flows as dividends to their shareholders.

Long dividend-growth streak

Fortis has increased its dividend for 43 consecutive years!

There are strong reasons why this electric and gas utility has been able to hike its dividend year in and year out.

In the last five years, Fortis boosted its dividend at a compound annual growth rate of 5.6%. Through 2021, management guides to increase its dividend by 6% per year, which is supported by its nearly US\$13 billion growth plan across all its business segments through fiscal 2021.

How is Fortis conservative?

Fortis is one of the most conservative utilities. It's become a top 15 North American utility based on its enterprise value.

electricity transmission

Fortis has a unique portfolio of assets which are diversified geographically and on a regulatory basis.

It has 10 utility operations in nine U.S. states, five Canadian provinces, and three Caribbean countries.

Its rate base is diversified across its regulated Canadian and Caribbean utilities (47% of rate base), its regulated transmission company, ITC Holdings (29%), and its regulated U.S. electric and gas utilities (24%).

It earns roughly 59% of its operating earnings from the U.S., 38% from Canada, and 3% from the Caribbean. Specifically, it earns 34% from ITC, which is regulated by FERC, 25% from its U.S. electric and gas segment, 24% from its Canadian electric business, 14% from its Canadian gas distribution segment, and 3% from its Caribbean electric segment.

Investor takeaway

Fortis is one of the most conservative investments dividend investors can ask for. It is a regulated utility with electric and gas utilities and a fast-growing electric transmission company. Additionally, it has been awarded a high S&P credit rating of A-.

The only thing investors need to watch for is the valuation they pay for the shares.

At about \$42 per share, Fortis yields 3.8% and trades at a price-to-earnings ratio of about 19. The analyst consensus estimates Fortis will grow its earnings per share by 7-7.7% for the next three to five years.

Cautious investors can buy Fortis when it yields 4% or higher for long-term returns of about 10%. Based on the current quarterly dividend, to get at least a 4% yield, don't pay more than \$40 per share.

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2. Investing

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