Fortis Inc.: A Checklist Income Stock

Description

There are two main criteria that I believe must be checked off a list for a company to be considered a smart, long-term dividend stock. It must be defensive, so it isn't having to spend considerable amounts of money staving off competitors, and it must be able to continue growing, so the dividend can follow, because everyone likes a raise.

Fortis Inc. (TSX:FTS)(NYSE:FTS) checks both of these on the list.

Part of what makes Fortis such a defensive company with a wide moat is the fact that it has built a very large portfolio of assets around Canada, the United States, and the Caribbean. Its portfolio has been created through acquisitions that have put Fortis in a position where it doesn't have to compete.

Fortis's portfolio is spread across five Canadian provinces, nine U.S. states, and three Caribbean countries. It earns 59% of its operating earnings from the United States, 38% from its Canadian sources, which is where it got its start, and then a small 3% from the Caribbean.

Another way it is able to stay defensive is through regulated earnings. While this limits how much the company can make in some respects, this puts it in a prime position to consistently generate cash flow without worrying about upstarts getting in the way.

The other criteria, that it be able to grow, is not something that most utilities can do. Fortis can, though, because it has taken an aggressive approach to acquisitions. Above, I mentioned that 59% of its operating earnings come from the United States. Well, 34% of that is thanks to a smart acquisition the company made in 2016.

In October, with it having received all of the needed regulatory approval, Fortis completed its takeover ITC Holdings Corp. for US$11.3 billion. That very large acquisition put the company in a prime position thanks to its expansion into Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, and Oklahoma. With 15,600 miles of high-voltage lines that can handle 26,000 megawatts at peak load, Fortis should generate amazing returns from this.

These sorts of acquisitions will allow Fortis to continue its trend of increasing the dividend for 43 consecutive years. It currently pays $0.40 per share, which provides a yield of 3.74%. While that yield is just the slightest bit too low for my liking, management is looking to increase it by 6% on average between now and 2021. It is currently carrying a payout ratio of 58%, which is more than sustainable.

Utilities are great stocks to hold because they're incredibly conservative; however, I like income stocks that have the stability of a utility and growth potential. Fortis fits that bill. If shares experience any sort of pullback, pushing the yield over 4%, this is a no-brainer investment. And even if that doesn't occur, Fortis should have many years of great growth and lucrative increases to the dividend.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/18
Date Created
2017/02/28
Author
jaycodon