Retirees: 3 Reasons to Buy And Hold Fortis Inc.

Description

Young investors may pass over **Fortis Inc.** (TSX:FTS)(NYSE:FTS) for a high-flying growth stock such as **Facebook**. But there are strong reasons for retirees or near retirees to consider Fortis, including the utility's stability and safe dividend.

Dividend and dividend-growth predictability

Fortis is one of those rare dividend-growth stocks that has increased its dividend for more than 40 consecutive years. Only two Canadian publicly traded companies have managed to do that, which speaks a lot for the company.

Specifically, Fortis has hiked its dividend payout every year for the last 43 years. In the last three-, five-, and 10-year periods, Fortis has hiked its dividend on average by 5.6-8.6% per year. That's more than keeping pace with the long-term inflation rate of 3-4%.

Fortis last hiked its dividend by nearly 6.7% in Q4 2016. Going forward, you can expect the utility's dividend to continue to grow because management plans to hike it at an average annual rate of 6% through 2021.

Fortis's dividend predictability is attributable to its business and earnings stability.

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utility power supply

Business and earnings stability

Fortis is a top 15 North American utility. It is a diversified business with 10 utilities across 17 locations in Canada, the United States, and the Caribbean.

Most importantly, it is virtually a regulated utility, which means that the returns on equity (ROE) of its utilities are stable, such that Fortis and its earnings are stable and predictable.

Moreover, Fortis supplies electricity and gas to more than three million customers, which is an essential service no matter the economic condition. The acquisition of ITC Holdings last year further diversified Fortis's business into electric transmission, which is also regulated. ITC is a quality addition because it has a higher expected ROE than Fortis's other businesses.

Even through the last two recessions, Fortis never once posted a loss.

Lower volatility

Because of the reasons above, Fortis's share price has very low volatility. In the last recession, Fortis's share price fell only 22% from peak to trough, compared to some other companies that fell as much as 50-70%.

Investor takeaway

Fortis is a low-risk and predictable business. If retirees or near retirees can buy shares of Fortis at a yield of 4% or higher, they can expect very predictable returns from Fortis — specifically, a total rate of return of at least 10% in the long run and dividend growth of 6% through 2021.

Indeed, Fortis has the ability to grow its dividend with a payout ratio of about 65% for this year and a $13 billion five-year capital program to grow its business.

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