Is Fortis Inc. the Right Utility for Your Portfolio?

Description

Normally, I stay away from most utilities because their growth prospects are limited. They operate in their region and, although they kick off generous cash flow, unless there is a mass migration of people to the area, I don't expect much. They are, for lack of a better word, boring.

But there are some utilities that are worth owning. One of them is **Fortis Inc.** (TSX:FTS)(NYSE:FTS), which takes the word boring and flips it on its head. Recognizing that growth was going to be a problem, Fortis ventured out and started acquiring other companies, becoming one of North America's largest utilities.

It all started back in 2011, when it tried to buy the Central Vermont Public Service for US$700 million. Although it was outbid, it didn't stop. It turned around and acquired CH Energy Group for US$1.5 billion, a utility with 300,000 electric and 75,000 natural gas customers in counties just north of New York City. Then it purchased UNS Energy, an Arizona utility company for US$4.3 billion in 2013. This added 152,000 natural gas and 511,000 electricity customers to the books.

Yet, the biggest deal was the US$11.3 billion takeover of ITC Holdings, which closed in October 2016. This came with a network of 15,600 miles of high-voltage lines through Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, and Oklahoma, capable of handling 26,000 megawatts at peak load.

Thanks to these numerous deals, Fortis now has over 3 million customers, with 96% of its revenue coming from regulated assets. In other words, the cash flow is very predictable, allowing the company to continue making smart deals and, more importantly, paying a lucrative yield to its investors.

And that's why I really like Fortis … While it is consistently expanding, it is also a shareholder friendly company. For the past forty years, the company has increased its dividend. This is an important quality because without these increases, inflation would slowly eat away at your income. But further, who doesn't like to get a pay increase? And over the past decade, it has increased the dividend by more than 5% each year.

Currently, the company pays a $0.40 a quarter dividend, which is good for a 3.62% yield. However, thanks to these acquisitions, management has the room to continue expanding that yield. In Q4 2016, it increased the dividend by 6.7%. And between now and 2021, management is looking to hike the dividend at an annual rate of 6%.

Here's how I'd invest in Fortis …

Because Fortis is a long-term hold with a growing dividend, you're going to want to own these shares in your TFSA. The dividends will be tax free, allowing you to purchase even more shares to compound your growth. And with the dividend increasing by, on average, 6% every year until 2021, that growth can become quite lucrative.

The only real negative is Fortis is a little expensive, but you get what you pay for. Since most investors know what to expect with this dividend giant, the discount just doesn't exist. However, with the tax free savings, I believe that Fortis might be one of the best investments you make this year. It's definitely the right utility for your portfolio.

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