



Now Is Not the Best Time to Buy Fortis Inc.

Description

Investors buy **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) as a buy-and-forget investment and for its safe and growing dividend. Most investors will agree that it's a safe dividend-growth stock based on its strong track record of dividend growth. However, it doesn't mean you should buy it at any price.

Amazing dividend-growth track record

Fortis is, in fact, one of the top two dividend-growth stocks in Canada. It has increased its dividend per share for 43 consecutive years. Compare that to the third top dividend-growth stock, which has hiked its payout for *only* 25 years.

Stable business

Fortis is a dividend-growth star. It's a North American regulated electric and gas utility leader that generates stable returns. Fortis is comprised of 10 utility operations in Canada, the U.S., and the Caribbean.

The ITC acquisition last year further strengthens Fortis's position in North America, as ITC is the largest independent transmission company in the U.S. ITC diversifies Fortis's business, has higher growth, and is expected to contribute about 29% of Fortis's operating earnings.

Fortis estimates it will generate 55% of its operating earnings from the U.S., including 26% from electric and gas utilities. The large U.S. exposure is positive because the U.S. dollar tends to be stronger than the Canadian dollar, especially when oil prices are weak.



Safe, growing dividend

Based on Fortis's annual payout of \$1.60 per share, its payout ratio is estimated to be about 63% this year.

Additionally, management aims to grow its dividend per share by about 6% per year through 2021. Indeed, with a sustainable payout ratio, Fortis has room to grow its dividend.

When should you buy Fortis?

At about \$45.50 per share, Fortis trades at a forward multiple of about 18. That's not expensive for the utility's quality, but it's not exactly a great deal.

Fortis is a good deal when it yields 4%. Currently, it only yields 3.5%. Even if you account for the expected 6% dividend hike to be declared in late September, to get a forward yield of 4% from Fortis, you should pay a maximum price of \$42.40 per share. That target price implies about a 7% dip from current levels, which is not out of reach.

Investor takeaway

Fortis is a stable business that offers a growing dividend. However, it's *because* it's a stable business that grows at a moderate rate that investors should be careful about the valuation they pay.

Within the next 12 months, investors should not pay more than \$42.40 per share for Fortis if they want it to be a buy-and-forget stock.

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