Fortis Inc.: Is This the Best Dividend Stock Among Utilities?

Description

Income investors are wondering which utility stock is the best dividend payer in Canada.

Having one or two utility stocks in your income portfolio is a good strategy, because the companies that supply power and gas to your homes and offices have very predictable revenue streams.

The reason is that, in most cases, they operate in a regulated environment where governments fix the rates. So, unlike many consumer-facing businesses, they're not affected by the whims of economic cycles and extreme changes in consumer demand.

Utilities make sure they offer uninterrupted services, and consumers make sure to pay their bills on time. This predictability in cash flows helps them pay very stable dividends to investors.

Let's find out if **Fortis Inc.** (TSX:FTS)(NYSE:FTS) is the best dividend stock to have in your portfolio.

Dividend growth

St. John's-based Fortis has $48 billion in assets with a good geographical diversification. The company provides electricity and gas to 3.2 million customers in the U.S., Canada, and Caribbean countries. The U.S. accounts for more than 60% of its assets, while Canada has more than 25%, and the rest are in the Caribbean.

When you're going to pick a stock for your income portfolio, it's very important to pick the ones with the potential to grow their dividends over time. More dividends mean you'll be able to re-invest more to buy more shares and multiply your wealth quickly. With a 3.51% dividend yield and about 6% expected growth in its annual dividend payouts through 2021, Fortis stock fulfills this basic requirement.

Between 2006 and 2016, Fortis's annual distribution increased from $0.67 to $1.53, which is a CAGR of 9%.

With growing dividends, you also need stability in your return. And Fortis hasn't done badly on this metric either. The company has increased its dividend payout for 43 consecutive years — a record very few companies can match.

Is the time right to buy Fortis?

Trading at $45.60 at the time of writing, Fortis stock is up ~10% this year, outperforming other Canadian utilities by a big margin. The stock is trading very close to the 52-week high of $47.06 it achieved in June.

From a value perspective, it may not be the best time to buy Fortis after all those gains, but the company has a good pipeline of some interesting projects that will fuel further growth in its earnings.

The proposed new projects include a $1-2 billion investment in an LNG export terminal in British Columbia, a $600 million gas pipeline to another company's proposed LNG export terminal also in British Columbia, and two +$1 billion power lines — one in Ontario and another connecting Ontario to Pennsylvania.

If you're a long-term buy-and-hold investor, including Fortis stock in your portfolio makes sense, especially because the company has a robust growth plan.

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Date
2025/08/16
Date Created
2017/08/31
Author

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