Why Fortis Inc. Continues to Be a Powerful Investment

Description

When the Bank of Canada raised interest rates for the second time this year earlier this month, it caught some investors off guard.

A shift in interest rates can have a significant impact on a portfolio, as the ripple effect of the rate increase makes its way to the balance sheets of companies. In many cases, this means that companies need to decrease their dividends or take a cut to profits to offset that higher cost of paying their debt.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is one of the largest utilities on the continent and has long been considered a great investment opportunity, but what does this new era of higher interest rates mean for investors or those contemplating a Fortis investment?

Here is why Fortis is still a great investment for your portfolio.

Fortis is not your typical utility

Utilities are well known for being less-than-stellar growth investments and have a reputation for being boring investments. Part of this stereotype stems from the typical business model for utilities.

Utilities typically generate most of their revenue through regulated contracts with the communities the utility serves. These contracts, referred to as power-purchase agreements, stipulate the rates or reimbursement as well as the duration of the contract, which could span upwards of 20 years.

While this provides a steady recurring source of revenue for the utility, this model often leads to little revenue being left to invest in growth.

Fortis has undergone several large acquisitions over the past few years that have seen the company grow into one of the top 15 utilities on the continent. Better yet, with each passing acquisition, Fortis gains exposure to additional markets, which fuels growth even further. The most recent major acquisition, ITC Holdings Corp. was a massive US$11.3 billion deal that Fortis forecasts will provide annual growth of 6% for the next five years.

While higher interest rates could make Fortis reconsider acquisitions on the scale of the ITC deal in the short term, Fortis is more than adequately capitalized to handle the recent upticks without any significant change for investors.

Fortis CEO Barry Perry noted that following the ITC merger, Fortis would be focused on organic growth to deeper penetrate the U.S. market rather than seeking out additional merger targets.

In terms of results, Fortis realized $2,015 million in the most recent quarter, representing a 35.7% increase over the same quarter last year.

Fortis as a dividend and growth investment

Another common concern when interest rates rise is the impact they will have on dividends.

Fortis has an impressive record of annual dividend hikes that spans more than four decades. That's an impressive feat that few companies can match, and it's unlikely to end anytime soon.

Fortis's dividend growth over the past decade has been like the growth of the stock — impressive — yet it's relatively under the radar for most investors.

To illustrate that dividend growth, a little over a decade ago, Fortis's dividend paid out $0.67 per year. Fortis's current dividend pays $1.60 per year, providing a yield of 3.57%. In that same period, Fortis's stock has shot up over 65%.

While interest rate hikes may cause some jitters among investors, Fortis remains, in my opinion, an impressive holding that should be the core of nearly every portfolio.

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