Is Fortis Inc. Still a Top Pick for Conservative Income Investors?

Description

A rising interest rate environment is a clear negative for many high-yielding securities such as utilities or REITs. If you're an income investor who's focused on the long-term preservation of capital, you'll need to adjust your expectations going forward. Rock-bottom interest rates are in the rear-view mirror, and many high-dividend-paying companies are going to need to pick their game up if they're going to offset the headwind of rising rates.

While rising rates can be a cause for concern, I do not believe the average investor should make too many drastic changes to their portfolios. If the preservation of capital is what you're after, then you should continue to hang on to utilities, REITs or any other high-yielding securities, since they'll still be solid performers over the long term, despite less favourable environments.

One popular high-yield safe stock is **Fortis Inc.** (TSX:FTS)(NYSE:FTS). The company has been a dividend-growth king that has held up quite well during times of economic turmoil. At the time of writing, shares yield a bountiful 3.6%.

The company recently reported very strong Q2 2017 numbers, and there's reason to believe the management team can offset the headwind of gradually rising rates as it ramps up organic growth initiatives.

Fortis clocked in adjusted earnings per share (EPS) of $0.61, up from $0.46 during the same period last year, and beating analyst expectations of $0.56. The EPS beat can be attributed to stronger-than-expected contributions by UNS Energy and a higher amount of electricity sales.

Shares of FTS reacted positively; however, all the post-earnings gains were surrendered in the weeks that followed. I believe this slight dip presents an attractive entry point for income investors who are looking to beef up the defensive part of their portfolios.

Going forward, Fortis is expected to continue its expansion into the U.S., which will support consistent dividend hikes over the next few years. The management team is aiming to grow its dividend at a ~6% CAGR through 2021.

Bottom line

Fortis has a promising organic growth profile, which will drive huge value for long-term shareholders. Sure, rising interest rates are bad, but that doesn’t mean you should avoid Fortis; in fact, I believe shares of FTS are attractively valued at current levels when you consider its many potential growth projects, which I believe will support growth without the need for additional acquisitions.

Shares of FTS currently trade at a forward price-to-earnings multiple of 17.1, a price-to-book multiple of 1.4, and a price-to-cash flow multiple of 7.4, all of which are lower than the company’s five-year historical average multiples of 20.4, 1.6, and 7.6, respectively. That’s a small price to pay for such a defensive dividend-growth king.

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joefrenette