Fortis Inc.: You Should Hold a Piece of This Dependable Income Stock

Description

There are two types of income stocks out there. The first group is comprised of stocks that yield in the high single-digits and, sometimes, in the low double-digits, but those are on rocky ground. The second group is made up of stocks that yield ~5% or below but are entirely dependable.

You want to own the latter. Although earning a 10% yield might be appealing, it's more important to have predictable dividends in your portfolio. And **Fortis Inc.** (TSX:FTS)(NYSE:FTS) is one of the most dependable stocks available on the market today.

Utilities as a whole are dependable because everyone needs electricity and gas. But Fortis takes it to the extreme because it not only provides predictable dividends for its investors, but it also consistent growth opportunities. This growth is because Fortis has a big appetite for acquisitions in the United States.

Fortis made its entry into the U.S. market with two acquisitions. The first was the US$1.5 billion takeover of CH Energy Group in 2012, which added 375,000 customers in the counties north of New York City. The second was the US$4.3 billion takeover of UNS Energy, which added 663,000 customers in southern Arizona to its portfolio.

Both of these deals were important to the company's growth prospects, but the most important acquisition was the US$11.3 billion takeover of ITC Holdings, which closed about one year ago. This is a major energy provider in the Midwest United States, and it added 15,600 miles of high-voltage lines to Fortis's portfolio.

These three acquisitions are significant because they changed the economic landscape of Fortis. Originally, it was a Canadian company with small holdings in the Caribbean. After the deals, the United States accounts for 55% of its pro forma earnings, Canada accounts for 35%, and the Caribbean adds 4%.

This all leads back to the company's ability to pay a strong dividend which has historically grown. For 43 consecutive years, the dividend has been increased. Between 2006 and 2016, the annual distribution increased by a CAGR of 9% from $0.67 to $1.53. Going forward, management is predicting a slightly more conservative 6% annual dividend increase.

My only real concern about Fortis is that if interest rates start to increase, the stock will experience a pullback. With interest rates historically very low, otherwise conservative investors have had no easy way to generate income, so they had no choice but to invest in dividend stocks. If interest rates increase, those conservative investors might leave safe stocks like Fortis, which would depress the stock.

With all of that in mind, here's how you should act: build a strong position in the company now, because the 3.5% yield is very secure. Anytime the company experiences some sort of a pullback, buy the dip. You'll want to continue averaging in as the price goes down because this dividend is, like I said, entirely predictable.

Utilities, historically, have not been the most exciting of companies, but their predictable income has always been a favourite for dividend investors. Now you can invest in an exciting utility that pays a predictable dividend but has significant growth prospects over the coming years.

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