Fortis Inc.: The Right Pick for Those That Need a Utility

Description

Adding a utility to your portfolio can provide a strong bedrock to build on. They tend to have strong moats and a monopoly in their area, giving them the ability to generate consistent income and, in turn, consistent dividends. If you're looking for one, the right pick is **Fortis Inc.** (TSX:FTS)(NYSE:FTS).

I like Fortis because it provides all the characteristics I just described, but it also offers investors the opportunity to gain consistent and lucrative growth. That growth has made it possible for Fortis to increase its dividend 44 years in a row without ever missing one.

That growth has come through an aggressive expansion strategy into the United States. Specifically, it has made three key acquisitions.

The first was the US$1.5 billion takeover of CH Energy Group, located in Poughkeepsie, New York. It has 300,000 customers that demand electricity and 80,000 that need natural gas. Year to date through Q2, this subsidiary has added $33 million in earnings compared to $70 million in the full year 2016.

The second acquisition was the US$4.5 billion takeover of UNS Energy, located in Tucscon Arizona and covering much of northern Arizona. It serves 518,000 customers with electricity and 155,000 with natural gas. Year to date through Q2, this subsidiary has contributed $130 million in earnings compared to $199 million in the full year 2016.

But the ultimate acquisition was the 80.1% of ITC that Fortis bought, the aggregate purchase price at US$11.8 billion. ITC is located in Novi Michigan and has transmission lines in Minnesota, Michigan, Iowa, Illinois, Missouri, Kansas, and Oklahoma. Year to date through Q2, this division has brought in $184 million.

Combined, the three U.S. acquisitions accounted for $347 million in earnings, which changed the financial landscape of Fortis. The company now generates 55% of its pro forma earnings from the United States, with 35% and 4% coming from Canada and the Caribbean, respectively.

Ultimately, that's the main point here. By stepping outside the typical utility script, Fortis was able to add major assets to its portfolio that generate strong earnings, but also changed its focus. I expect to see Fortis add even more U.S. assets over the coming years.

What’s good for investors is the company’s willingness to distribute the ever-growing earnings back to its investors. In 2006, the annual dividend was $0.67. In 2016, it was $1.53. This is a compound annual growth rate of 9%, which is quite lucrative. Going forward, management expects to continue increasing the dividend by 6% on an annual basis.

There is one risk, though: utilities are the perfect buys for super conservative investors that can’t find income anywhere else. With interest rates in Canada and the United States beginning to increase, those conservative investors may seek other income opportunities.

Fortunately, there’s a simple strategy you should deploy when it comes to buying Fortis. Start building a position now, because there’s no risk in the 3.6% yield. However, anytime there is a dip, take advantage of it. There have been instances, albeit rare, where the yield pushed over 4%. When that happens, you should buy shares.

There are a lot of great companies to invest in, but having something as foundational as Fortis is a great way to keep your portfolio strong. I recommend buying.

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