



Why Fortis Inc. Makes a Great Utility Investment

Description

Utilities are interesting investments. On the one hand, they have a reputation as being boring investments that lack any real growth, but on the other, some utilities, such as **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)), can be fantastic holdings.

Let's look at the myth surrounding utilities and why Fortis makes such a great investment.

Utilities are not boring investments

Utilities typically receive most of their revenue from long-term contracts that stipulate how much of the service they will provide, and for how much they will be compensated. Those contracts can last upwards of 20 years and provide utilities with an incredibly stable source of recurring revenue for the duration of that contract.

Approximately 93% of Fortis's earnings come from regulated utilities.

This is where the boring stereotype comes into play. Because the utility has a stable source of revenue, the view is that there is little incentive or budget to pursue additional growth opportunities.

Fortis is anything but boring.

Fortis has pursued an aggressive growth strategy that has seen the company grow through acquisitions to become one of the largest utilities on the continent. Over the past five years, Fortis has completed several large acquisitions that not only furthered Fortis's position in the market, but also opened new markets for the company.

The ITC holdings acquisition is a perfect example of this. Thanks to the ITC deal, Fortis gained access to several new state markets and added over 25,000 km of high-voltage lines to its portfolio.

Because of that ITC deal, exposure to the U.S. market now accounts for nearly 60% of Fortis's revenue, and the company has diversified beyond power generation into the realm of distribution thanks to that deal.

What about dividends?

Fortis has an impeccable record of rewarding shareholders with annual dividend increases that now spans 44 consecutive years. There are few companies on the market today that can come close to matching Fortis's growth, which is, in a word, incredible.

The 44th consecutive raise came this month, and Fortis plans to continue that stream of growth, projecting increases of 6% annually through 2022.

To put that dividend growth into context, over the last decade, Fortis's annual payout has gone from \$0.67 to \$1.70. That dividend payout translates into a solid 3.63% yield.

Investors often grow concerned with investments such as Fortis when interest rates begin to rise, as the cost of borrowing increases. Fortis has over US\$20 billion in long-term debt, which may raise some brows, but that level of debt is common for a company the size of Fortis that recently completed a massive deal, such as the ITC Holdings transaction.

The important takeaways for investors to know are that Fortis has stable, recurring income, the company is already paying down the debt from the ITC deal, as the most recent quarter showed a dip in long-term debt, and there are still synergies from the ITC deal that will provide a boost over the next few quarters.

Should you invest in Fortis?

Fortis is a great investment option, provided that investors considering the stock are looking for both modest growth and a stable source of recurring income.

Fortis's dividend won't be impacted directly by rising interest rates, unlike some other companies. Similarly, Fortis has a plan in place to keep annual growth at 6% over the next five years, which should keep investors more than happy.

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Author

dafxentiou

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