Fortis Inc.: Is it Time to Buy the Dip?

Description

Fortis Inc. (TSX:FTS)(NYSE:FTS) is a popular stock for retirees and conservative investors because of its low risk and stable nature. Just a couple months ago, I said that investors may be paying up for stability. Since then, the stock has pulled back about 8%. Is it time to buy the dip?

Some of the factors that attract retirees and conservative investors to Fortis include its stable business and growing dividend.

A very stable business

Fortis has a strong balance sheet and an S&P credit rating of A-. It is virtually a regulated utility (with roughly 97% of regulated assets), which generates predictable earnings, cash flow, and growth. Its high quality is reflected in its stock, which is less volatile than the market.

Fortis's diverse utility portfolio in North America is comprised of 10 utility operations, which are largely regulated electric and gas and regulated electric transmission assets. The utility generates roughly 60% of its earnings from the United States. So, it earns more when the U.S. dollar is strong against the Canadian dollar.

Fortis's rate base increased at a rate of roughly 25% per year from 2011 to 2016 thanks largely to its strategic U.S. acquisitions, including UNS Energy and ITC Holdings. Without these acquisitions, its rate base still would have grown at a healthy rate of about 7%.

A safe, growing dividend

Other than its stability, investors buy Fortis for its growing dividend. The company has achieved one of the longest dividend-growth streaks among public Canadian companies; it's increased its dividend for 44 consecutive years.

Fortis last hiked its dividend at the end of 2017 by nearly 6.3%, which aligns with its five-year dividend-growth rate. With a payout ratio of about 67%, Fortis's dividend is sustainable.

This year through 2022, Fortis plans to invest $14.5 billion in the business. And management aims to grow Fortis's dividend at an average annual rate of 6% through 2022.

What returns can you expect from an investment in Fortis?

The analyst consensus from **Thomson Reuters** has a 12-month target of $50.50 per share on the stock, which represents about 15% of upside potential for the near term.

Adding in its nearly 3.9% yield, and the near-term upside jumps to about 19%, which is pretty good for a relatively low-risk stock investment.

Investor takeaway

The meaningful dip in Fortis stock is an opportunity for conservative investors to start scaling in. Fortis is a relatively low-risk, stable company with an estimated 12-month return of roughly 19%, which is quite attractive. At the recent quotation of $43.85 per share, Fortis offers a starting yield of almost 3.9%.

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