Fortis Inc. Down 8% Year to Date: Time to Buy?

Description

It has not been a good start to 2018 for **Fortis Inc.** (TSX:FTS)(NYSE:FTS) investors. The stock has given up over 8% since reaching a peak in November 2017. So what's going on and should investors be concerned?

Looking at the company, I see little cause for alarm, however. The likely culprit here is interest rates. Fortis is a utility, and utilities are considered some of the safest stocks on the market. The dividends are predictable, so those who are looking for cash seek out utilities.

For quite a few years now, with interest rates in the gutter, the only way for income investors to earn yield was to buy stocks. Now that interest rates are on the rise, some of these income investors are seeking other, potentially safer assets to get their cash. That creates selling pressure, which is why shares are down.

But Fortis is not like most utilities.

Thanks to a series of acquisitions, Fortis has accumulated an incredibly strong U.S. portfolio. It bought CH Energy Group in 2012 for US$1.5 billion and then bought UNS Energy for US$2.5 billion in 2013. These two deals added 1 million customers. In 2016, Fortis announced the acquisition of ITC Holdings for US$11.3 billion, which catapulted the company to one of the 15 largest North American public utilities by enterprise value.

These deals also changed the dynamic of the company. The utility now earns about 60% of its earnings from the United States. Thanks to these U.S. acquisitions, its rate base increased by about 25% per year from 2011 to 2016.

And the business is incredibly predictable. Since 92% of its assets (as of December 31) are regulated, the company knows exactly what it's going to earn from its customers, which ensures that earnings, cash flow, and growth is controlled and moving in the right direction.

But let's look at the real reason people buy Fortis: dividends. Management prides itself on Fortis dividends, which have been increasing for 44 consecutive years. Its most recent increase was a 6.25%

hike back in October, thereby increasing the dividend to $0.425 per quarter.

The growth doesn't stop there either. Management expects to invest $14.5 billion in its business through 2022. As the business evolves, management expects the dividend to evolve with it. Between now and 2022, management expects an average annual increase of 6%. That means that by 2022, you could be earning a $0.568 dividend.

If you're given the opportunity to pick up shares of a strong utility that will pay a lucrative and growing dividend, it's important to pay attention. Given that this stock is unlike most utilities on the market today, I'd recommend taking the advice from my fellow Fool writer and buying the dip. Your dividend portfolio will thank you.

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Date
2025/07/02
Date Created
2018/02/26
Author
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