Here’s an Opportunity to Buy a Quality Dividend Stock at an Immense Discount

Description

Fears over rising interest rates have wreaked havoc in many high-payout securities of late. The average high yielding security in the REIT, telecom, and utility sectors has surrendered ~10% peak-to-trough, but most stocks have partially rebounded. Is the recent plunge a sign of worse things to come? Or is the plunge an opportunity to take Warren Buffett’s advice by being greedy while others are fearful in some of the lowest volatility names on the TSX?

The current perception among the general public is that three or four rate hikes are in store for 2018, the first slated for March, which is a ridiculously fast rate hike. At this point, however, the quicker-than-expected rate hike schedule is already factored into the prices of many of the highest quality defensive dividend stocks out there.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is a name that stands out as an incredible bargain from the recent carnage. The stock plunged ~18% peak-to-trough, but has since made up some ground such that the stock’s just ~13% off from its 52-week high reached last November.

The company has a rock-solid dividend that can be relied upon through the worst of market crashes. The highly regulated nature of Fortis means that earnings and dividend growth will be moving steadily in the upward trajectory regardless of how the broader market is performing. Fortis has hiked its dividend every year for over four decades, and the next bear market isn’t going to break this streak.

For a boring utility, Fortis also has an above-average growth profile that will produce ~5% in annual earnings growth and ~6% in annual dividend growth.

While I realize that ~5% earnings growth isn’t anything to write about, when you consider the uncertainties (other than the pace of rate hikes moving forward), Fortis’ shares are extremely non-volatile and would make for an excellent bond replacement.

Fortis' above-average growth profile is really a double-edged sword in a rising interest rate environment. Borrowing costs are more expensive, leaving less cash to line the pockets of its shareholders. Fortis also has ~60% of its earnings coming from the U.S., where rates are likely poised to soar as the company continues to invest in its solid U.S. utility businesses.

A bargain for portfolios lacking in defensive positions

Higher interest rates are certainly bad news for Fortis; however, I think the recent sell-off presents an opportunity for investors who have neglected the defensive portion of their portfolios over the last few years.

Some pundits believe that the February 2018 correction is an "appetizer" before the main course, which may see the bear rear its ugly head later in 2018. Investors are already expecting the worst when it comes to rate hikes (3-4 per year). However, U.S. stock valuations are still really expensive, even after the recent market correction. For those fearing the return of the bear, Fortis is a must-buy bomb shelter stock that's a bargain at its current levels.

The stock trades at a modest 16.4 forward price-to-earnings multiple, a 1.3 price-to-book multiple, and 6.4 price-to-cash flow multiple, all of which are lower than the company's five-year historical average multiples of 20.7, 1.5, and 7.5, respectively.

Sure, Fortis has headwinds in front of it; however, at these prices, income investors should be hitting the *buy* button aggressively. Fortis is one of the most stable firms out there and the dividend can be relied upon through thick and thin.

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