Don’t Ignore the Best Utility Stock to Earn Steady Dividend Income

Description

Income investors who love energy infrastructure and utility stocks didn’t have a memorable year in 2017.

Almost all utility company stocks suffered during the past 12 months, mainly hurt by rising interest rates in North America and pipeline constraints in Canada. But in this environment of dismay and lack of direction, some companies did better than others. St. John’s, Newfoundland-based **Fortis Inc.** (TSX:FTS)(NYSE:FTS) is certainly one of the winners.

Its stock has fallen 3% during the past 12 months when compared to **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), which plunged 28%. So, what’s behind this strength, which has made Fortis a safe bet when compared to other North American utilities?

The biggest strength for Fortis comes from its diversification and a low level of leverage. Fortis has $48 billion in assets with good geographical diversification. The company provides electricity and gas to 3.2 million customers in the U.S., Canada, and Caribbean countries. The U.S. accounts for more than 60% of its assets, while Canada has more than 25%, and the rest are in the Caribbean.

Fortis, like other utilities, operates in a regulated environment where governments fix the rates. So, unlike many consumer-facing businesses, the company not affected by the whims of economic cycles and extreme changes in consumer demand.

Fortis has a very strong business risk profile, which is a key credit strength. More than 95% of its cash flow come from a diverse portfolio of low-risk, investment-grade, regulated utilities.

Growing dividend

While picking stocks for your income portfolio, growth in payouts is one of the most important metrics you should look for. More dividends mean you’ll be able to re-invest more to buy more shares and multiply your wealth quickly.

In a five-year period ended in December, Fortis delivered 10.2% average total annual return, beating **S&P/TSX Capped Utilities Index's** 6.9% return during this period.

With a 4% dividend yield and about 6% expected growth in its annual dividend payouts through 2021, Fortis is a much better option for income-seeking investors.

The company has a good pipeline of projects to continue producing increasing cash flows. The proposed new projects include a $1-2 billion investment in an LNG export terminal in British Columbia, and two +$1 billion power lines — one in Ontario and another connecting Ontario to Pennsylvania. These are some of the projects which will fuel future earnings growth.

The bottom line

Trading at $42.80, Fortis stock is trading 14% below the 52-week high. With a forward price-to-earnings multiple of just 16, I think this solid dividend stock is a good bargain to earn steady income.

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