



How to Think About a Fortis Inc. Investment

Description

Fortis Inc. ([TSX:FTS](#))([NYSE:FTS](#)) is a favourite stock of retirees. They buy Fortis for its stable dividend, which has been growing for 44 consecutive years. A growing dividend leads to a growing share price over time.

In the long run, if you'd bought Fortis at a good multiple, you would have gotten roughly market-matching returns, while having a stock that has below-average volatility. That can mean a lot to retirees and income investors who just want to [enjoy the income](#) that's coming in and not to have to worry about the share price.

If that sounds like you, you might want to buy some Fortis at the current level of ~\$42 per share, if you haven't already. At the recent quotation, Fortis trades at a price-to-earnings multiple (P/E) of ~16.8, which is the cheapest it's been since 2009!

Now, one big reason for the depressed shares is rising interest rates. In such an environment, the stocks of utilities, which normally carry big debt loads on their balance sheets, will feel pressured.



How to think about an investment in Fortis

It's hard to believe that Fortis won't be here decades later. The regulated utility has been doing its thing since 1987. Since it's an essential business that delivers electricity and gas to its customers, Fortis isn't going anywhere.

The stock is relatively cheap and offers a solid 4% dividend yield for starters. The company has a target to grow its dividend per share by 6% per year over average through 2022. So, investors can get market-matching returns of ~10%. This return will beat the returns of the Toronto Stock Exchange in most years, except for the years when energy and mining stocks do well.

What's the worst-case scenario? Investors get their [dividend income](#), and the share price falls lower. Then again, if you sell the shares, you won't get the dividend income. So, it's best to think of Fortis as a part of your income-generating machine. Focus on the dividend.

At what price would Fortis stock be a bargain?

Because of Fortis's stable business and stock and rock-solid dividend, the stock has a long-term premium normal P/E of ~18. Even though the stock is trading at a multi-year low valuation, it's still expensive for the growth rate one is getting. In other words, investors are paying a premium multiple on Fortis no matter what for its quality and predictability.

It has been almost a decade since Fortis traded at below a P/E of 15 (i.e., under \$38). So, if it trades at that level in the next 12 months, it'll be a great opportunity to pick up Fortis shares for a ~4.5% dividend yield for starters.

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