Addressing Investor Concerns on Fortis Inc. (TSX:FTS)

Description

Over the course of the past few years, utility stocks such as **Fortis** (TSX:FTS)(NYSE:FTS) became known as great long-term investments with an outstanding record of rising dividend rates. In short, utilities were viewed as perfect buy-and-forget investments.

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In an environment of increasing interest rates, trade tariffs, and uncertainty, does this sill hold true for Fortis?

Let’s look at several well-known concerns and criticisms of Fortis to answer that question.

Fortis has no growth prospects

This is a common complaint of utility companies owing to their historically high dividend payout pitted alongside the stable and recurring revenue stream.

While this concern is true for some utility stocks, Fortis has never been one to sit on their laurels. Rather the company has exhibited stellar growth and an insatiable appetite for expansion over the years, culminating in the behemoth US$11.3 billion dollar deal for ITC Holdings in 2016.

Long-time investors need only look back over the course of several years to see that Fortis’ deal for ITC followed several others in the years prior, with each subsequent one bigger than the last.

Are there other investments that can offer better growth? Of course. But for the stable income that Fortis does provide, the fact that Fortis is also actively acquiring and expanding its footprint is nothing short of impressive.

Utilities pay out so much in dividends that the dividend is unsustainable

Wrong again. Following each major acquisition, Fortis hasn't been coy on how the additional revenues will impact shareholder payouts. If anything, the company has been completely upfront about it. Following the ITC deal, for example, Fortis noted that annual dividend growth of approximately 6% would continue through 2022.

That's just one reason why Fortis has maintained annual increases to its dividend for well over four decades- a feat that relatively few others on the market can match.

The current quarterly dividend on offer provides a tasty yield of 3.90%.

Rising costs will chew away at Fortis

Fortis recently announced results for the third fiscal of 2018, and while the results did seem a little weaker, the company is still seeing growth and the dividend is still solid.

Net earnings for the most recent quarter came in at $240 million, or $0.57 per share, reflecting a decrease from the $257 million, or $0.62 per share reported in the same quarter last year.

Much of that loss can be attributed to both changes in U.S tax law as well as an unrealized net loss of $14 million on mark-to-market derivatives at the Aitken Creek natural gas storage facility.

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Removing that loss would have seen Fortis come in near flat over the same quarter last year.

The important thing to keep in mind here is that Fortis has never been about incredible growth. Fortis has always been about slow and steady growth with a great dividend.

Is Fortis still a good investment?

Fortis has long been regarded as a great long-term investment, and that view hasn't changed. Whether new to investing or a seasoned veteran, Fortis' stable business, growing dividend and future prospects make the company a prime candidate for any long-term diversified portfolio.

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