Should Fortis Inc. (TSX:FTS) Be in Your TFSA Dividend Portfolio?

Description

Owning reliable dividend-growth stocks inside a TFSA is a popular strategy for Canadian investors who are searching for ways to build up their retirement savings.

Let's take a look at **Fortis** (TSX:FTS)(NYSE:FTS) to see if it deserves to be in your portfolio today.

Assets

Fortis has grown from its humble beginnings as a small east-coast electric company to become one of the top 15 utilities in North America, with total assets that now top $50 billion. Three million customers in Canada, the United States, and the Caribbean rely on Fortis to supply their electricity or natural gas.

The Canadian businesses includes FortisBC, FortisAlberta, and the Eastern Canada group that operates in Ontario, Newfoundland, and Prince Edward Island. Together, they represent just over 30% of the assets.

Fortis has significantly grown its U.S. presence in recent years with the US$4.5 billion purchase of Arizona-based UNS Energy and the US$11.3 billion takeover of Michigan-based ITC Holdings. The company also owns New York-based Central Hudson. Combined, the three companies make up more than 60% of the asset base.

The Caribbean operations and other energy infrastructure holdings make up the remaining pieces of the pie.

Growth

The integration of UNS and ITC went well. Both companies are performing as expected and additional deals could be on the horizon. In the meantime, Fortis has its eye on a number of organic growth opportunities, including gas infrastructure expansion at FortisBC, storage investments in Arizona, and the ITC Lake Erie Connector Project. Fortis is also working on a major transmission power project in northern Ontario.

Overall, the company has a five-year $15.1 billion capital program in place that should boost the rate base by a compound annual growth rate of 5.4%.

Dividends

The capital program is expected to support dividend growth of at least 6% per year through 2022. That's pretty good medium-term guidance, and investors should feel confident that management will hit or exceed the target. Fortis is one of Canada's top dividend-growth stocks, having raised the payout in each of the past 44 years.

The company gets more than 90% of its revenue from regulated businesses, meaning the cash flow required to support the dividend should be reasonably predictable and reliable. At the time of writing, the stock provides a 4% yield.

Risks

Rising interest rates can have a negative impact on utility stocks, as they drive up borrowing costs, which can take a bite out of cash flow available for distributions. In addition, the better returns investors can get from GICs could start to compete with dividend stocks for funds. A major shift away from stocks into guaranteed investments could put downward pressure on multiples.

Fortis currently trades for $42.50 per share, down from a high above $48 last November, so the market is already reacting to the upward moves in interest rates.

Should you buy?

Fortis is a solid company with diversified assets and strong revenue streams. The capital program should support steady dividend growth, and additional acquisitions in the coming years could boost the outlook. At this point, the pullback in the stock might be overdone. As such, I think Fortis is an attractive pick today for a dividend-focused TFSA.

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