



Is Fortis Inc (TSX:FTS) Still a Buy This Holiday Season?

Description

If you're looking for a buy and hold stock, you could do much worse than **Fortis Inc** ([TSX:FTS](#))([NYSE:FTS](#)). With a 132% cumulative 10 year return, it has outperformed the TSX by 74% over the same period. However, the real benefit of this stock is not capital gains, but also income. With a [44-year track record](#) of raising its dividend—without raising the payout ratio—Fortis is a dividend investor's best friend. A quick look at the 10-year payout history is all you need for proof: from 2007 to 2017, Fortis's dividend doubled from \$0.82 to \$1.62 and management has plans to [keep the growth going](#) until 2022. Nice.

That said, past performance doesn't necessarily indicate future performance. It's far from inevitable that Fortis will keep up the growth forever. And with an earnings miss in its most recent quarter, some are wondering if the company's best days are behind it.

So, is Fortis still a buy as we head into the holiday season? Before answering that question, let's start by looking at some seasonal factors that may affect this company.

A winter boost?

Fortis is a utility stock, which means it provides electricity to customers in a defined service area. Utility stocks tend to have strong earnings in the winter, as people jack up their heat to fend off the cold. This may result in strong Q4 earnings for Fortis, which could in turn send the stock higher. However, because some of the company's assets are in the Caribbean, it could get less of a winter boost than other Canadian utilities, as this region experiences mild winters.

Third quarter earnings concerns

One strike against Fortis is its Q3 results. In Q3 2018, the company earned \$0.65 per share, compared to \$0.66 in the same quarter of 2017. This is not a huge decline, but when people invest in utility stocks, they expect the steady growth you'd imagine a legal monopoly could pump out at will. That said, the Q3 earnings decline mainly came from losses on natural gas derivatives. This has nothing to do with cash flow, so the earnings decrease will not impact Fortis' ability to raise its dividend. On a bright note, revenue was actually up about 7% in Q3, so the company is still growing.

Strong annual growth

When we look at Fortis' earnings on an annual basis (as opposed to quarterly), the picture looks much better. In 2017, earnings attributable to shareholders grew from \$585 million to \$963 million—a 64% jump. However, I wouldn't expect this trend to last into Fiscal 2018, as the company's year-to-date earnings (from the quarterly reports released so far) is lagging behind the same results for 2017.

Bottom line

Fortis is a company with an illustrious history that has been running into minor trouble in recent quarters. There are many good reasons to buy this stock, not the least of which being its history of dividend increases. But the question investors need to ask themselves is whether management can keep it up if earnings continue to falter. For now I remain cautiously optimistic about Fortis.

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