3 Reasons to Invest in a Defensive Utility Before 2019

Description

If there was one word to describe the market over the course of the past few weeks, it would be volatile.

After witnessing two correction events year-to-date and the chances of a year-end Santa rally now as absent as a white Christmas, many investors are looking to rebalance their portfolios by seeking out investments that are more defensive in nature. One such investment that is worthy of consideration is **Fortis** (TSX:FTS)(NYSE:FTS)

Fortis is one of top 15 largest utilities on the continent, with a diversified mix of facilities that crosses over from generation to distribution over a geographic area that includes parts of Canada, the U.S., and the Carribean. While impressive, that size alone is not reason enough to consider investing in Fortis.

Here are three key reasons investors may want to consider Fortis.

Fortis offers a massive moat

Utilities offer us a required service that we take for granted, a key point that any potential investor needs to weigh in on. When utilities such as Fortis provide power to our local communities, they do so adhering to long-term contracts known as power-purchase agreements or PPAs. The PPA stipulates how much of the utility is to be sold, at what rate, and for how long.

Even better is the fact that those PPA contracts can typically span several decades in duration, with the end resulting being a stable and recurring source of revenue for the company.

To quantify the sheer size of that moat, of the 3.3 million customers Fortis from both the electric and gas units, 97% of the assets fall under a regulated contract, translating into an impressive $8.3 billion in revenue over the course of fiscal 2017.

Fortis pays a handsome dividend

One of the many advantages of having a well-defined moat and a recurring stream of stable revenue is that Fortis can provide shareholders with an equally reliable source of income.

Fortis is one of just a handful of companies on the market today that has provided annual consecutive increases to its dividend spanning back over four decades. As at the time of writing, the current quarterly payout provides a respectable yield of 3.87%.

Prospective investors should also take note of the growth that Fortis' dividend has provided and management maintains that annual increases of 6% are set to continue through 2023, handily making Fortis a prime candidate as a buy-and-forget stock for nearly any portfolio.

Fortis is a growth king

Part of the reason that Fortis can continue to provide a strong dividend and healthy bumps to its annual payout is thanks to a nearly insatiable appetite that the company has toward growth through acquisition. To illustrate that incredible growth, in a period of just over 30 years, Fortis has gone from having $390 million in assets to its current position of nearly $50 billion.

Several key acquisitions, such as the ITC Holdings deal completed several years ago, have proven instrumental in this regard. Not only did they provide a boost to earnings and spur dividend growth, but Fortis was able to expand into several new markets within the U.S. That's also not factoring in any synergies that come into play once acquired assets are fully integrated into Fortis' business.

Speaking of business, in the most recent quarter, Fortis reported adjusted net earnings of $0.65 per share, surpassing the $0.61 per share reported in the same quarter last year.

In short, Fortis represents an excellent investment opportunity for those investors looking for a defensive stock that can provide income and growth prospects.

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