



Every Portfolio Needs This Defensive Star for Decades of Stable Income

Description

Both of the corrections that we saw in 2018 underscored the importance of having a diversified portfolio that contains a certain composition of [defensive investments](#) that can not only weather a longer downturn but thrive in them. One such investment that every investor needs to strongly consider in their portfolio is a utility, and there are few, if any, utilities on the market today that present a more compelling case for long-term investors than **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)).

Why a utility?

Utilities operate under one of the most stable and lucrative business models on the market. In short, utilities provide a necessary service to the communities they serve in exchange for compensation. The amount of the utility to be provided, the amount of compensation, and the duration of the arrangement are all laid out in an agreement that can span several decades in length. In other words, the rates are regulated, the time is fixed, and the utility is provided a stable and recurring stream of revenue for the duration of the contract.

To quantify that market opportunity, Fortis has over \$50 billion in assets with 10 utility facilities spread across North America that serve 3.3 million customers split between electric and gas segments, with over 97% of those assets being regulated.

That's not even the best part.

A good chunk of that recurring revenue stream is passed back to shareholders in the form of a dividend, which can be extremely attractive for long-term investors looking for a stable source of income. In the case of Fortis, the quarterly payout provides an appetizing annual payout of \$1.80, working out to a yield of 3.84%. Even better is the fact that Fortis has established a precedent of hiking that dividend on an annual basis for over four decades consecutively. That's a trend that is unlikely to end anytime soon either, as Fortis has planned to continue boosting that annual payout by 6% through at least 2023.

Why Fortis?

Critics of utility investments often point to the fact that the handsome yield offered comes at the cost of limited growth. To put it another way, if the company is paying out so much towards that attractive dividend, there's little left for growth.

This is where Fortis breaks from most of its peers. Over the years, Fortis has been known to rapidly expand through a series of well-executed acquisitions. In the past several years, the acquisitions of ITC Holdings and UNS Energy positioned Fortis to rapidly expand into new markets as well as delve further into the distribution and transmission markets. Furthermore, both of those deals established Fortis as one of the top 15 utilities on the continent and provided the boost needed to continue to provide annual hikes to its dividend.

Turning to the future, Fortis is making a significant investment over the next few years to increase capacity and generate cleaner energy across key locations in the U.S. and Canada. In total, Fortis is targeting over \$17 billion to be invested over the next few years.

In my opinion, Fortis remains an excellent long-term option for investors looking for a defensive stock that can provide a [stable source of income](#).

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