My Top Canadian Dividend Stock to Buy in 2019

Description

When it comes to picking dividend stocks, the rule of thumb is to focus on companies that are generating strong cash flows and have the potential to reward investors on regular basis. On this metric, many Canadian utilities fit the bill.

One strength that separates Canadian utilities from their global peers is that they have a very big neighbor south of the border, where they have a lot of opportunities to grow once their domestic markets mature.

Many Canadian utilities used this formula in the past decade and produced impressive growth for their investors. St. John's-based **Fortis** (TSX:FTS)(NYSE:FTS) is one such stock I highly recommend for your long-term income portfolio.

Fortis is one the 15 largest utilities in North America, with over $49 billion in assets. The utility operates in the U.S., Canada, and the Caribbean, providing nice diversification to investors.

Fortis provides electricity and gas to 3.2 million customers. The U.S. accounts for more than 60% of its assets, while Canada has more than 25%, and the rest are in the Caribbean. Fortis purchased ITC Holdings in 2016 for US$11.3 billion. That deal allowed the company to expand in several new U.S. state markets and made investors excited about its stock.

Why 2019 is a good year to buy Fortis stock

Many investors didn't buy utility stocks last year on fears that rising interest rates in North America will reduce the appeal of owning dividend stocks. But that risk is diminishing after both the U.S. Fed and the Bank of Canada signaled that they may stay on the sidelines as global growth slows.

"Recessionary fears appear to be rising, and we believe our names should outperform the broader S&P/TSX Composite in a market where investors are cautious and concerned about a potential recession," Bill Cabel, an analyst at Desjardins Securities, wrote in a recent note. He also added that rate declines would be a further tailwind for utility stocks.

After rising 7% since its December low, Fortis is trading close to analysts' 12-month price target of $49.17. But I still see some upside potential for Fortis and, for that matter, for other solid utility stocks, especially the ones with strong growth plans.

Fortis has $14.5 billion capital-spending plan for the next five years that mostly comprised of low-risk and high-reward projects. For income investors, Fortis's 3.8% annual dividend yield and its future dividend hikes provide a good enough reason to remain bullish on this stock. The company aims to continue raising its dividend at an average annual rate of about 6% through 2023.

Bottom line

If you're a long-term buy-and-hold investor, including Fortis stock in your portfolio makes sense, especially when the company plans to hike the dividend and has a strong plan for future growth.

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Date
2025/07/03
Date Created
2019/02/19
Author
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