This Is One of the Best Dividend Bets for Long-Term Investors

Description

Buying utility stocks wasn't a favourite trade in 2018, but that situation changed this year amid slowing global growth and uncertainties about the U.S. decade-long expansion.

In Canada, investors have turned positive about the nation's largest gas and electric utility stocks after the central bank hinted this year that it may not hike its interest rates in 2019 after five increases amid signs that the economy is slowing fast. When rates fall, bond-like utility stocks outperform due to their fixed rate of return.

If you want to take exposure to one of the best-performing dividend stocks in the utility space, then you should consider the shares of **Fortis Inc.** (TSX:FTS)(NYSE:FTS). Let's take a deeper look at the company's business and the reasons that make its stock a top buy.

Strong growth

St. John's-based Fortis has a diversified asset base, providing electricity and gas to 3.2 million customers in the U.S., Canada, and the Caribbean countries. Its U.S. operations account for about 60% of its regulated earnings, while the rest comes from its Canadian and Caribbean operations.

Just like other top Canadian utilities, Fortis also expanded through organic growth by acquiring quality assets. Its biggest acquisition was ITC Holdings Corp., a Michigan-based electricity transmission company, for US$11.3 billion in 2016, when it partnered with Singapore sovereign wealth fund **GIC Private Ltd**.

The result of this explosive growth has been impressive for the company and its investors. Last year, Fortis' net earnings rose to US$1.1 billion from US$963 million reported in 2017. For the fourth quarter of the last year, net earnings rose to $261 million, or $0.61 per common share, compared to $134 million, or $0.32 per common share for the same period a year ago.

Increasing dividends

If you're buying Fortis stock for income growth, it's one of the best stocks among the Canadian utilities. With a 3.51% dividend yield and about 6% expected growth in its annual dividend payouts through 2021, Fortis holds strong appeal for income investors.

Between 2006 and 2019, Fortis's annual distribution increased from $0.67 to $1.80 a share, which is very impressive track record of rewarding investors.

With growing dividends, investors also need stability in their returns, and Fortis hasn't done badly on this metric either. The company has increased its dividend payout for 45 consecutive years — a record very few companies can maintain.

Trading around $49 a share at the time of writing, Fortis stock has gained more than 13% during the past one year, outperforming other Canadian utilities by a big margin. The stock is trading very close to the analysts' 12-month price target, and it may not be the best time to take a position in Fortis stock from a value perspective.

However, the company has a good pipeline of growth projects that will fuel further expansion in its earnings. If you're a long-term buy-and-hold investor, including Fortis stock in your portfolio makes sense, especially because the company has a robust growth plan.

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