1 Top Dividend Stock to Buy When the Economy Is Slowing

Description

What stocks are best positioned to beat the market when the pressures on the economy are building up and the central bank is more likely to cut interest rates?

This is quite a common dilemma faced by many retail investors when the economy starts showing signs of weakness. In the latest report on the GDP growth, Statistics Canada said the nation's economy shrank in February.

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.

In the utility space, **Fortis Inc.** (TSX:FTS)(NYSE:FTS) is one of the best-performing stocks. Let's take a deeper look at the company's business and the reasons that make its stock a top buy.

Diversified assets

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.

What makes Fortis a great defensive stock is the company's robust capital spending program and the projected dividend growth of 6% per year. Last year, Fortis' net earnings rose to US$1.1 billion from US$963 million reported in 2017.

With more than $17-billion worth of projects in the pipeline, there is a good possibility that Fortis will continue to show strong earnings, especially when interest rates remain favorable to fund that growth.

Growing dividends

If you're buying Fortis stock for income growth, it's one of the best stocks among the Canadian utilities. With a 3.64% dividend yield and about 6% expected growth in its annual dividend payouts through 2023, Fortis holds strong appeal for income investors.

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

During the past one year, Fortis' stock has been a great performer, delivering more than double the return that the **S&P/TSX Composite Index** has produced. If interest rates decline going forward, it will further strengthen the case for utility stocks.

RBC Dominion Securities analyst Robert Kwan has recently raised his price target for Fortis, highlighting the reasons we discussed earlier. He raised his 12-month price target to $53 from $50, which equates to a forward price-to-earnings multiple of 19 times 2020 estimates.

Bottom line

Trading around $49.31 a share at the time of writing, Fortis stock has gained more than 14% during the past one year, trading close to the analysts' 12-month price target. However, the company has a good pipeline of growth projects that will fuel further expansion in its earnings and payouts.

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