# Know This Before Buying Fortis (TSX:FTS) Shares

## Description

**Fortis** (TSX:FTS)(NYSE:FTS) has historically been one of the most reliable utility stocks on the TSX. Over the past five years, shares have risen 52% plus dividends — with a yield averaging about 4%, the total return over this period has been handsome.

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Fortis's long, uninterrupted history of dividend increases and strong gains have led some to dub it the "finest utility in Canada." And indeed, the company has been a better investment than the TSX utilities sub-index for most of its history.

However, in recent years, Fortis has come up against some potential problems. Particularly in today's high interest rate environment, the company may be ill-equipped to face the challenges ahead. That's not to say Fortis isn't a good investment. However, there are concerns that investors should be aware of. In this article, I'm going to discuss one in particular that anyone considering buying Fortis shares should know about.

## Fortis has a high debt burden

At the end of 2018, Fortis had $34 billion in total liabilities, including current and long-term debt. This was balanced against $54 billion in assets; however, a sizable $12 billion chunk of Fortis's assets was comprised of goodwill, which is hard to value accurately. At the end of 2018, Fortis reported $8.3 billion in revenue and $2.3 billion in operating income, so the company's debt exceeded what it could reasonably pay off from its cash flow. This isn't necessarily a huge problem in itself. However, we're in a historically high interest rate environment, which means that the more money Fortis borrows, the harder a time it will have servicing interest.

## Typical for utility companies

It should be noted that high debt is quite typical for utilities. Running electrical utilities is an extremely capital-intensive business, with recurring costs for generating plants, transmission, maintenance, and more. All of these activities cost money, so utilities tend to borrow quite a bit — especially when it comes time to make acquisitions. At the same time, it's precisely these steep costs that make utilities so "safe"; they're protected by nearly impermeable barriers to entry.

## Interest rates a concern

Nevertheless, interest rates remain a major concern for Fortis. Any dollar a company spends servicing debt is dollar that doesn't contribute to profit. With the Bank of Canada's interest rate now sitting at 1.75%, interest on debt is large enough to put a dent in a company's bottom line. And with Fortis now set to embark on a $17 billion capital-expenditure program, its debt is only set to rise.

## Foolish takeaway

Over the years, Fortis has established itself as an ultra-dependable utility, thanks to its steady earnings growth and dividend increases. Going forward, the company will likely keep growing. However, right now, that growth is coming at a somewhat greater cost than in the past, which could harm the stock's future returns.

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**Date Created**
2019/05/02
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