Passive Income Investors: Is This Canada's Highest Quality Dividend?

Description

It's volatile times like these, when a trade war could put us on the brink of recession, that investors begin to value the quality of dividends over quantity. That's a huge reason why utility stocks have been one of the top-performing asset classes year to date and why they could be headed much higher as the trade war continues to worsen for both sides, potentially inspiring a couple of rate cuts.

While the title of Canada's highest quality dividend is up for debate, I find it challenging to find a candidate that has one that's as robust as the dividend of **Fortis** (TSX:FTS)(NYSE:FTS).

Yes, Fortis is a boring utility stock that your grandparents probably own at the core of their retirement portfolios. But that doesn't mean the company and its dividend aren't worthy of a younger investor's "more exciting" portfolio of growthier stocks.

In fact, Fortis may be a superior builder of wealth over the long term than many riskier bets that have higher odds of posting huge gains over short periods of time.

At the time of writing, Fortis sports a mere 3.5% dividend yield, which is dwarfed by many stocks within the universe of high-yielders. When you select stocks to own for decades at a time, though, it's not just the size of the yield that counts. It's the dividend's sustainability, growth potential, and degree of predictability. With Fortis, you're arguably getting the perfect blend of all these categories.

Fortis' dividend is not only well covered by cash flows from operation, but the highly regulated nature of the company's cash flow streams allows for greater financial flexibility to pursue opportunistic growth projects as they come along while committing to raise the dividend by a mid-single-digit amount per year.

Fortis's 6% dividend growth guidance is the closest thing to a guaranteed raise that you'll ever come across in the equity markets. Not just because of Fortis's has a track record of paying dividends for over 40 years, but also because Fortis has an unmatched foundation in its regulated operations together with an above-average pipeline of highly predictable growth projects.

Further, Fortis's expedition in the U.S. market will continue to be a boon on growth, as the U.S. is the place to be for growthier utilities that don't want to have to deal with those numerous Canadian regulatory hurdles. Through ITC Holdings, Fortis has a sizeable U.S. presence that'll likely propel ROE numbers over the years ahead.

To add even more wind to the back of Fortis, the U.S. and Canada may be ready to slash interest rates to make up for anticipated economic weakness. If this ends up happening, Fortis's borrowing costs will lower marginally and shareholders will prosper as a result.

Moreover, the continued weakness of the Canadian dollar relative to the greenback is another plus for Fortis over its domestic peers thanks to its U.S. presence.

Foolish takeaway on Fortis

Fortis is boring, but boring is beautiful, especially with those choppy market moves that we've grown accustomed to over the past year. The dividend is not only bountiful at 3.5%, but it's also ripe for above-average growth over time, and it'll remain intact even if Trump's trade war were to send the global economy into a tailspin.

That's a kind of dividend that money can't buy. Well, actually it can, and although you'll have to a pay a premium price tag, given the potential tailwinds, I think the premium isn't at large as it ought to be!

Stay hungry. Stay Foolish.

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