Is This Electric Utility Yielding 3.5% Canada's Best Dividend Growth Stock?

Description

Dividend stocks continue to attract considerable attention, as nearly historically low interest rates mean that traditional incomer producing assets such as bonds have low yields, preventing retirees from generating the level of income retired. This makes stable dividend paying stocks with wide economic moats, mature businesses and steadily growing dividends highly appealing investments to generate a reliable passive income stream.

One that stands out for all the right reasons and could be described as Canada's best dividend growth stock is electric utility **Fortis** (TSX:FTS)(NYSE:FTS), which has gained 14% over the last year. The company has hiked its dividend for an impressive 45 years straight to be yielding a juicy 3.5%.

Steady earnings growth

Fortis is well positioned to continue growing its earnings and dividend. It is a top-ranked North American utility with operations and assets located across Canada, the U.S. and the Caribbean. Fortis' earnings are predominantly generated from regulated sources, meaning that not only are they effectively guaranteed, but they will also continue to grow because they are linked to inflation.

For the first quarter 2019, adjusted earnings per share rose by 6% year over year to $0.74. Except for Fortis Alberta, where earnings remained flat, the company's businesses performed strongly during the quarter with base rate growth being the key driver of higher earnings. Since 2014, earnings per share has a compound annual growth rate (CAGR) of 8% and appears poised to continue expanding at a solid clip.

Fortis has a $17 billion capital plan in place where it is focused on expanding its facilities and hence power generating capacity, which will drive higher earnings as new facilities are commissioned. Among the most important assets under development is the megawatt Oso Grande wind project in New Mexico, which on completion will move Fortis closer to achieving its target of renewables being responsible for 30% of its power generation by 2030.

Fortis is also implementing efficiencies across its business to reduce greenhouse emissions and bolster profitability. These initiatives support Fortis's planned earnings and 6% annual dividend growth.

The company possesses solid defensive characteristics, which, along with steep barriers to entry to the power generation industry and the inelastic demand for electricity means that it is relatively immune to economic downturns.

Foolish takeaway

For those reasons, Fortis should be a core holding in every investors portfolio, making it an ideal income generating stock for retirees. Fortis offers shareholders a dividend reinvestment plan (DRIP), which is an ideal way for those investors who don't require the dividends paid as income to access the power of compounding and accelerate their returns.

By electing to participate in the DRIP, shareholders receive a 2% discount on all shares purchased through the plan by reinvesting dividends paid. This allows investors to build wealth and achieve their goals faster.

Had you invested $10,000 in Fortis 10 years ago and reinvested all the dividends paid, that initial amount would have grown to $29,000 for a total return of 192% or 11% annually. This compares to $25,384 if the dividends were taken as cash, equating to a total return of 154%, or 10% annualized.

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mattdsmith