



How Fortis (TSX:FTS) Stock Can Outperform in 2020

Description

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is a [popular dividend stock](#) that resides in many income portfolios. Its dividend is rock solid, as it has increased its dividend for more than 40 consecutive years. The stock has done a wonderful job by delivering total returns of more than 10% per year in the last 10 years.

In the last year, the stock has simply outperformed by rising 28%.



FTS data by YCharts.

Several factors can keep the stock strong. First, its earnings are very stable. Second, it's a beneficiary of low interest rates. Third, its dividend is competitive at a solid yield of 3.3%.

Stable earnings

In general, it's easier to hold on to Fortis stock, which tends to have strong stock price stability and below-average volatility. That's because its earnings are very stable.

As a regulated utility with diverse operations, Fortis's earnings are stable with predictable growth rates. That's why it has already given guidance for an average of 6% dividend growth per year through 2023.

Fortis has 10 utility operations across 3.3 million electric and gas utility customers and generates about 65% of its earnings from the United States.

A key diversification was the ITC Holdings acquisition in 2016, as ITC is an independent transmission company that is regulated by the FERC. Moreover, through 2023, Fortis estimates that ITC will have the largest rate-base growth out of all its businesses.



How Fortis benefits from low interest rates

Utilities inherently have lots of debt on their balance sheets. Fortis's latest debt-to-assets and debt-to-equity ratios are 64% and 2.1 times, respectively.

Specifically, Fortis has \$22.6 billion of debt on its balance sheet with a weighted average interest rate of 4.7%. If interest rates remain low, the company has the opportunity to refinance maturing debt at a lower rate to lower its borrowing costs.

Competitive dividend

Fortis habitually offers a juicier yield than the market. Currently, it offers higher income of 17% and 77%, respectively, than the Canadian and U.S. stock markets. Additionally, it's a more attractive long-term investment as it offers a higher yield than GICs and long-term price appreciation.

How Fortis stock can outperform in 2020

Unfortunately, there's one thing that's going to prevent the stock from heading higher over the near term — its valuation. At \$55 per share as of writing, Fortis stock trades at 21.6 times earnings, which is about 11% higher than its norm.

The stock has already gone up 28% in the last 12 months. I believe the only way for Fortis [stock to outperform in 2020](#) is if the stock fell significantly sometime between now and mid-2020, which would give time for the stock to recover in the second half of 2020.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date

2025/08/02

Date Created

2019/09/02

Author

kayng

default watermark