



Is Fortis (TSX:FTS) a Safe Bet for the Upcoming Recession?

Description

There are enough signs that the next economic recession will hit stock markets sooner rather than later. The yield curves have inverted, the global economy is in a slowdown, and the trade war continues to escalate. Further, China's economic growth is slowing, and global debt levels are at all-time highs.

Utility stocks are generally safe bets to ride out a recession. Most utility companies have been around for ages and have a large customer base. A comparatively high dividend yield for utility companies ensures a steady stream of income. Here we look at one domestic utility company and analyze if it is a safe bet for Canadian investors.

Fortis is a top public utility company

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) is one of North America's top utility company. It is a Canada-based gas and electric utility holding company and has 10 operations across the United States, Canada, and the Caribbean. With a market cap of \$23.96 billion, Fortis is a domestic heavyweight.

Revenue and earnings growth

Fortis has managed to grow sales and earnings at a robust rate over the years. Sales have risen from \$6.84 billion in 2016 to \$8.39 billion in 2018. Analysts expect Fortis to increase sales by 7% to \$9 billion in 2019, 4.2% to \$9.35 billion in 2020, and 3.6% to \$9.72 billion in 2021.

The company's earnings per share are also estimated to grow by 2.4% in 2019, 7.8% in 2020, and at an annual rate of 4.7% in the next five years. However, Fortis is experiencing a revenue slowdown. Its bottom-line growth is also decelerating.

The company managed to increase earnings by 21.7% annually in the last five years. Fortis stock is trading at a forward price-to-earnings multiple of 19.5, which indicates that the stock is overvalued looking at its long-term estimated earnings growth.

Growth via acquisitions and partnerships

Fortis has managed to increase sales over the years by focusing on inorganic growth. It acquired [three U.S.-based companies](#) between 2013 and 2016. In April 2019, Fortis “closed the sale of the Waneta Expansion for proceeds of approximately \$1 billion and booked a \$484 million gain related to this transaction. Net proceeds were used to pay down corporate short-term borrowings as well as repurchase a portion of a corporation’s outstanding debt.”

During the company’s earnings call, Fortis confirmed that it has entered a two-year supply agreement to export 53,000 tons of LNG to China per year, becoming the first Canadian company to have an LNG export contract with China.

Fortis announced an increase in capital expenditure by \$600 million for 2019. The company will spend around \$4.3 billion in capital expenditures — an increase of 16% year over year. It aims to spend \$17.3 billion between 2020 and 2024 in capital expenditures. These investments will help Fortis support revenue growth over the next few years.

Fortis has allocated a significant amount of funds to invest in renewable energy, transmission infrastructure, and grid modernization.

The verdict

Fortis stock seems overvalued at the current price. But it provides a healthy dividend yield of 3.3%. It has increased dividend payments in the last 45 consecutive years and should continue to do so going forward. The stock overperformed broader indices in the last two recessions and is likely to do so in the upcoming one as well.

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