Is Fortis (TSX:FTS) a Top Stock to Earn Passive Income in a TFSA?

Description

Canadian income investors are searching for steady stocks to add to their TFSA portfolios amid concerns that ongoing geopolitical and trade tensions could tip the global economy into a recession in the next couple of years.

Utility companies often come up as popular picks when people are seeking out low-beta stocks. Let's take a look at **Fortis** (TSX:FTS) (NYSE:FTS) to see if it deserves to be on your TFSA buy list right now.

Earnings

Fortis reported solid results for Q2 2019, despite some difficult weather situations.

The company's adjusted net earnings came in at $235 million, or $0.54 per share. That was slightly below the $251 million, or $0.59 per share, the company generated in the same period in 2018.

For the first half of 2019, adjusted earnings were $551 million compared to $548 million in the opening six months of last year. Drought conditions in Belize resulted in lower hydroelectric revenue and the coldest May in 20 years in Arizona took a bite out of power demand from the Tucson Electric Power subsidiary.

Fortis owns about $50 billion in assets in Canada, the United States, and the Caribbean. Power generation, electricity transmission, and natural gas distribution are the core business lines.

Outlook

Fortis just released new guidance for the next five years. The company has increased its capital program by $1 billion to $18.3 billion through 2024.

The consolidated rate base should increase from $28 billion in 2019 to $34.5 billion in 2022 and hit $38.4 billion by the end of 2024. The development portfolio consists of low-risk and highly executable projects.

Dividends

Fortis gets most of its revenue from regulated assets, meaning cash flow should be reliable. As the rate base expands, cash available for distributions should also increase.

In fact, Fortis is targeting average annual dividend hikes of 6% through 2024. The board just bumped up the quarterly dividend by 6.1% to $0.4775 per share.

That’s good for an annualized yield of about 3.5% at the current stock price.

The latest increase marks the 46th straight annual boost to the distribution, so the guidance the company is giving over the next four years should be solid.

Opportunity

The stock has enjoyed a nice rally in 2019, driven by reduced expectations for interest rate hikes in Canada and the United States. The American central bank actually cut rates for the first time in a decade in July, and more easing is expected in the coming months.

The Bank of Canada halted its rate-hike program in 2019, and market watchers are anticipating a cut sometime in 2020.

Lower interest rates benefit Fortis in two ways. First, the reduced yield on fixed-income investments tends to drive investors to safe dividend stocks, like Fortis. In addition, the lower cost of borrowing means Fortis should have more cash available for distributions.

Should you buy?

Fortis has a low beta, meaning its stock price tends to be more stable than the broader market, especially when things get a bit chaotic. Given the uncertainty surrounding Brexit and the ongoing trade dispute between the United States and China, it would make sense to add some defensive dividend stocks to your holdings.

The dividend-growth guidance is great, and the stock should continue to find support as interest rates slide.

If you have some cash available, Fortis should be a solid pick right now for a self-directed TFSA portfolio.

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