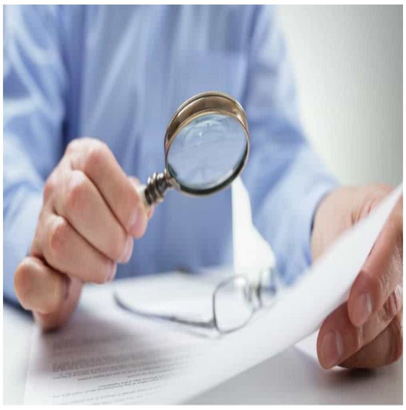

Why Fortis (TSX:FTS) Stock Rose 6% in August

Description

Fortis (TSX:FTS)(NYSE:FTS) is often billed as a low-risk, stable dividend stock that is perfect for retirees or income investors. Last month, it also showed off its growth potential, generating six times the return of the **S&P/TSX Composite Index**. A single month never tells the whole story, but there's a lot to appreciate here.

Over the last decade, revenue has grown by 8.4% per year, while profits have increased by a whopping 18.9% annually. Rapid earnings growth has propelled the stock price higher by 123% since 2006. The TSX average, meanwhile, rose by only 40%. The future remains bright. If you're looking for a stock that can weather a potential bear market while delivering income *and* growth, take a closer look below.

What happened?

Last month, Fortis revealed second-quarter results. Expectations were high considering that over the previous eight quarters, the company beat EPS estimates 100% of the time. Actual revenue came in at $1.97 billion, a 1% increase from the year before, while adjusted EPS ended up at $0.54. Earnings were slightly below expectations, but nothing egregious, especially considering unfavourable weather conditions impacted the entire utility industry.

"Rate base growth driven by our regulated businesses … was offset by unfavourable weather impacts," noted CFO Jocelyn Perry. "Weather alone impacted EPS by $0.06 in the first half of 2019 when compared to 2018." In total, Fortis displayed solid operating results with few surprises apart from the weather.

Strong results helped the company boost the dividend a few weeks later, raising the quarterly payout by 6% from $0.45 per share to $0.4775 per share. Fortis now targets annual dividend growth of 6% through 2024. Plus, the company unveiled a revised five-year plan in early September, fueling even more optimism. Capital spending will now hit $18.3 billion, a $1 billion increase from earlier plans. Increased spending aims to capitalize on a growing rate base, which is expected to increase from $28 billion in 2019 to $34.5 billion in 2022, ultimately reaching $38.4 billion in 2024.

What to expect

Fortis is hitting on all cylinders, and the stock's performance in August and early September reflect that success. Rate base growth that is fully regulated means reliable cash flow for decades to come. The fact that the company is willing to spend big to secure that growth is respectable. It's looking very likely that the firm will hit its 6% annual dividend growth through 2024 and beyond.

In terms of valuation, shares aren't cheap, but it's not terrible to pay a fair price for a well-run business with lower-than-average market risk. Shares trade at 21.4 times 2019 earnings and 19.9 times expected 2020 earnings. That's in line with similar Canadian utilities like **Algonquin Power & Utilities**.

Where shares will shine, however, will be during the next market downturn. With a highly regulated business model, revenues and profits are largely impacted from economic pressures. That means the dividend should be safe in all but the worst conditions. For example, from January 2008 to January 2010, a period that comprised the greatest global economic downturn in nearly a century, shares ended up roughly flat. Now that's stability.

Today, shares are fairly priced and don't offer extreme upside. But if you're looking for stability and income, the current valuation is well worth the price of admission.

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