This Defensive Investment Is Best Left Untouched

Description

Following a disappointing July and volatile August, the market seems to be roaring ahead in September. Despite those recent gains, market volatility and concerns over a slowdown looming on the horizon continue to keep some investors on edge.

To counter that uncertainty, it's always best to diversify your portfolio with one or more defensive investments that can not only withstand a prolonged slowdown but in many cases, thrive.

Today, let's take a look at a long-time favourite of defensive investors: utility stocks.

Keep the lights (and profits) on

Utilities are outstanding long-term investments, which can be traced back to their relatively simple, yet profitable business model. In short, the utility is contracted to provide a service at a fixed cost. The contract can span several decades in duration, and the amount that the utility is compensated is stipulated in the contract, too.

When market slowdowns occur consumers shave their budgets, cutting out items such as discretionary travel plans or shopping in dollar stores. Fortunately, utilities are largely immune from those types of cuts, and as a result, we rarely question an electricity bill with the same scrutiny as buying items from our favourite stores.

The end result is a steady, stable, and recurring stream of revenue flowing into the utility, which is then passed on to investors in the form of a dividend.

One utility that should be on the radar of nearly every investor is **Fortis** (TSX:FTS)(NYSE:FTS). In recent years, Fortis has become one of the largest utilities in North America. That growth can be traced back to a series of well-executed acquisitions that provided Fortis with exposure to new markets as well as long-term growth opportunities.

Shareholders have been well rewarded with Fortis over the years. Fortis has provided solid revenue growth over the past decade, with profits edging into double-digit territory on an annual basis. In the most recent quarter, Fortis earnings came in at $720 million, or $1.66 per common share, far surpassing the $240 million, or $0.57 per share, reported in the same period last year.

Much of that gain can be attributed to an after-tax one-time gain of $484 million, or $1.12 per common share realized from the sale of Waneta Expansion.

Growth and other concerns are being addressed

Critics of utility investments often point to two long-standing concerns, which Fortis is addressing brilliantly.

First, there's the "no-growth" argument. In short, the concern is that because utilities provide so much to shareholders in the form of a dividend, there is little room to invest in growth. In the case of Fortis, the company has completed a series of increasingly larger acquisitions over the years that have opened new market opportunities and cost synergies that will see the company continue to offer handsome 6% dividend growth through 2024.

Speaking of dividends, Fortis is one of a handful of companies on the market today that has provided investors with over four decades of consecutive, annual dividend hikes. The most recent 6% uptick was announced recently, with a payout coming in December.

The other major concern is the need to transition to renewable energy and off fossil fuels. Earlier this year, Fortis announced the construction of a 247-MW wind farm in Arizona, while also earmarking $17.3 billion towards a five-year capital plan. The plan will address system capacity issues, safety and reliability concerns, and move towards cleaner energy.

Final thoughts

Fortis remains a great long-term option for nearly any portfolio. Investors looking for solid growth as well as some passive-income generation should consider buying and holding Fortis.

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Author
dafxentiou