Investors: Buy This Stock to Earn $3400 a Year in Dividend Income

Description

Do you want to earn $3400 per year in dividend income with just $100,000 invested?

If you answered yes to that question, you're in luck.

There are plenty of stocks on the **TSX** yielding well over 3%, and many of them have steady and rising payouts. Among the safest of these are utility stocks. Renowned for their recession-proof revenue streams, utilities are among the most reliable stocks around.

Of course, you could always enjoy the benefits of utilities by investing in a passive ETF. The **iShares S&P/TSX Capped Utilities ETF** has an average distribution yield of 3.5%, which is more than enough to get you to $3400 a year.

However, individual stocks offer more upside. Not all utilities are created equal, and there are several that have out-performed the utilities sub-index consistently for years. One in particular is worth considering for its strong stock performance and dividend income.

Fortis

Fortis Inc (TSX:FTS)(NYSE:FTS) is Canada's largest publicly traded utility. Up 24% this year, it has handily beaten utilities as a class.

As a regulated utility, Fortis operates in Canada, the U.S. and the Caribbean, providing power to 3.3 million customers. That's a wide reach for a utility, and it gives Fortis a steady and growing revenue stream.

Speaking of revenue, Fortis is currently embarking on a $18.3 billion capital expenditure program that it says will increase its rate base. Among other things, the plan will replace aging infrastructure and add new infrastructure to serve more customers in its service areas.

These upgrades can increase revenue by preventing outages and providing more service in areas with growing populations.

Why it's a good buy right now

Right now, recession is the dreaded "R" word on everyone's mind, and Fortis is a stock that's perfectly suited to this environment. In the late 2000s recession, Fortis shares fell only 25%, while North American equities fell by 50% on average.

Also, Fortis quickly recovered after the recession, while many non-utility stocks took a long time to reach previous highs. Any good utility stock is a buy in a recession, but Fortis is better than the class average due to its historical out-performance and high dividend yield.

Speaking of yield: at 3.4%, it is high enough that you only need to invest $100,000 to earn $3400 a year. It has also been rising over time, with 46 consecutive years of dividend increases, and an average annual increase of 7.3% over the past five years.

Some areas of concern

Although Fortis is a great dividend stock, there are some areas of concern for investors to be aware of.

First, the company has a lot of debt, and is going to be taking on more debt as part of its capital expenditure program. High debt levels are normal for utility companies, but they do create interest expenses that eat into earnings.

Second, with a P/E ratio of 22, FTS is a little expensive for a stock with only moderate growth prospects.

Third, although Fortis' management are committed to further dividend increases, the 6% per year they're aiming for is not quite as good as in years past.

Any investor considering buying FTS should take the above concerns seriously. However, on the whole, this is one of the best dividend growth stocks on the TSX.

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andrewbutton