TFSA Investors: 3 Things You'll Love About This Dividend Stock

Description

Fortis (TSX:FTS)(NYSE:FTS) stock resides in many income and retirement portfolios for good reasons. If it's good for retirees, it should work for most diversified portfolios.

What you should love about the quality dividend stock is its stability and predictability in terms of profitability, growth, and dividend growth. TFSA investors can simply buy the stock whenever it's a good value and collect passive income that's growing year after year!

Predictable profitability

Fortis has 10 utility operations across Canada, the United States, and the Caribbean. Moreover, about 99% of its assets are regulated and about 93% are for transmission and distribution of electricity and gas.

Thanks to some strategic acquisitions it made in the past eight years, namely ITC Holdings, UNS Energy, and Central Hudson, Fortis now generates roughly two-thirds of its earnings from the U.S. whose currency tends to be stronger than the loonie. Therefore, Fortis's earnings are very predictable, leading to a stock that's highly predictable as well.

This results in Fortis stock commanding a premium normal price-to-earnings ratio just north of 19 in the last 15 years or so. Whenever the stock trades at this multiple, it's a good time to buy some shares.

Steady growth

A couple of months ago, Fortis just gave an updated five-year capital growth plan, involving $18.3 billion of investments from 2020 to 2024. Fortis will be investing to shift to cleaner energy, including in renewable gas at FortisBC, a green and resilient grid, solar and wind projects for power generation, electric vehicle penetration, and energy efficiency.

Fortis projects its consolidated rate base will increase from $28 billion this year to $34.5 billion in 2022 and $38.4 billion in 2024, equating to attractive three- and five-year compound annual growth rates of 7.2% and 6.5%, respectively.

Predictable dividend growth

Attributable to predictably growing earnings and a sustainable payout ratio, Fortis celebrated its 46-consecutive year of dividend increases, as the regulated utility hiked its fourth-quarter dividend by 6.1%.

Fortis's 10-year dividend-growth rate is 5.6%. And over the next five years, it aims to increase its dividend by 6% per year on average.

Currently, Fortis stock is good for a safe yield of 3.6%, which is backed by a payout ratio of about 70%.

Investor takeaway

Fortis is a great holding for conservative investors looking for stability. It's best suited to be held in a TFSA, RESP, or non-registered account, but it's also eligible to be held in other registered accounts.

Currently, the stock trades at a multiple of 20.8. So, it's considered fully valued. If you're looking for a bigger margin of safety, buy the stock on meaningful dips.

Stay hungry. Stay Foolish.

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