Fortis (TSX:FTS) Is 1 of Canada's Top Defensive Stocks

Description

As the TSX Index hits new highs almost daily, it is wise to protect your portfolio against a potential downtrend. One of the best ways to do so is to ensure your portfolio has a good number of defensive stocks. Defensive stocks are those that will do well regardless of economic environment and most often pay a dividend. The demand for their products and services remains stable and isn't subject to business cycles.

Industries such as utilities, apartment REITs, and consumer staples are defensive in nature. Consumers need power, a roof over their heads, and food regardless of economic conditions. My favourite of these industries is utilities. If you think utilities make for boring investments, think again. In 2019, the S&P/TSX Capped Utilities Index is up a whopping 32%, far outpacing the broader index. It is a clear sign that the shift towards defensive investments has already begun.

The most attractive aspect of a utility is its ability to generate stable and reliable cash flows. In turn, this leads to a stable, growing, and reliable dividend. Take a look at the top five Canadian Dividend Aristocrats:

Rank	*Name*	*Streak*
1	**Canadian Utilities**	48 years
2	**Fortis** (TSX:FTS)(NYSE:FTS)	46 years
3	**Toromont Industries**	30 years
4	**Canadian Western Bank**	28 years
5	**Atco**	26 years

Three of the top five Aristocrats are utility companies. My favourite of the bunch is Fortis, and I consider it one of the top defensive stocks in the country.

Strong performance

In 2019, Fortis has surprisingly underperformed, as it has only returned approximately 16% thus far. This, however, is a good thing for those looking to start or add to a position. As mentioned previously, the S&P/TSX Capped Utilities Index has been on fire, and, as a result, many utility companies are trading at record-high valuations. This is not so for a company like Fortis. It is currently trading at a respectable 14.32 times earnings and 1.45 times book value. This is well below the industry average of 24 times earnings and 1.77 times book value.

When it comes to performance, it is also important to take into account the long-term view. Over the past five years, Fortis has averaged 7.3% annual returns, outpacing both the TSX Index (4.82%) and the S&P/TSX Capped Utilities Index (4.56%). It has been a similar story over the past decade. Fortis's 9.9% average annual returns is double that of the TSX Index (4.86%) and the S&P/TSX Capped Utilities Index (4.67%).

Fortis has made a few transformational acquisitions south of the border, which has enabled it to average 17% annual earnings growth of the past five years. Such growth rates are a rarity in this regulated sector. Industry consolidation is one of the only ways to achieve such high growth rates, and Fortis has proven to be very efficient at capital allocation.

At 46 years and counting, Fortis also owns the second-longest dividend streak in Canada. The company also stands out as it provides guidance with respect to future dividend growth. Not all companies can afford to do this, but Fortis has such stable cash flows that it can predict dividend growth well into the future. The company has targeted 6% annual dividend growth through 2024.

At today's prices, investors can lock in a starting yield of 3.66% and can grow their income by at least 6% annually over the next five years. Considering Fortis has never missed on its dividend-growth guidance, it is as close to a guarantee as investors can get.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/20
Date Created
2019/12/04
Author
mlitalien