Is Fortis (TSX:FTS) Stock Still Attractive for TFSA Income Investors?

Description

The share price of **Fortis** (TSX:FTS)(NYSE:FTS) rallied significantly in 2019, which has knocked the dividend yield down below 4%.

Income investors who have traditionally held the stock are wondering whether they should add to the position or search for other options for their TFSA portfolios.

Let's take a look at the current situation to see if Fortis should be on your buy list right now.

Rally

Fortis started 2019 at $45 per share and steadily rose through the first nine months of the year, eventually topping $56, before a slight dip brought it back to the current price near $54.

The shift in interest rate policy in the United States and Canada is part of the reason the stock has performed so strongly. In the U.S., the Federal Reserve cut rates three times in 2019. The Bank of Canada put its rate hikes on hold and is broadly expected to make a cut in the first half of 2020.

Why is this important?

Fortis is a utility company and uses a significant amount of debt to fund its capital projects, and at times, strategic acquisitions. Lower interest rates translate into cheaper borrowing costs. This in turn can free up more cash to be paid out to shareholders.

In addition, lower rates tend to knock down the returns investors can get from investments like GICs. As a result, yield seekers often shift funds to what would appear to be the next safest thing. For many investors, this means utility companies such as Fortis.

Operations

Fortis owns natural gas distribution, power generation, and electric transmission assets in Canada, the United States, and the Caribbean. For the most part, these operations are recession-resistant and not directly impacted by global geopolitical events.

The majority of the revenue comes from regulated businesses, meaning the cash flow stream should be steady and predictable. This is good news for income investors who want quality dividends that tend to increase at a regular clip.

Fortis grows its revenue and profits by making accretive acquisitions and building new projects across its $52 billion asset base.

The company is currently spending $18.3 billion on a five-year capital plan that will see the rate base increase significantly through 2024.

As a result, cash flow should rise enough to support average annual dividend hikes of 65 over the next few years. Beyond 2024, the guidance could easily be extended.

Fortis is evaluating a number of projects in BC, Ontario, and Arizona that could result in even higher increases or a continuation of the trend beyond 2024. Based on the historical track record, investors should feel comfortable with the outlook. Fortis has increased the dividend for 46 straight years.

Risks

A steep rise in interest rates would put pressure on the stock and could push up borrowing costs. Pundits have pointed to the balance sheet as a potential issue due to the debt load, which should be worth watching if rates rise sharply.

In the near term, however, the rate trend appears to be in the other direction.

Should you buy?

While Fortis isn't as cheap as it was a year ago and the yield is now just 3.5%, the stock still deserves to be on your radar for a buy-and-hold income portfolio.

A five-year GIC from the banks is less than 2.5% today and you don't get a raise every year.

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