CPP Pensioners: 1 Dividend Stock to Consider in 2020

Description

CPP Pensioners need to be risk-averse and invest in stocks that have strong fundamentals. We know that the average CPP payment in 2019 was around $600 per month, while the maximum payment was just north of $1,000. The rising cost of living in Canada's major provinces indicates you need a lot more than the average monthly CPP payment.

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This means an ideal stock for pensioners will mean a dividend-paying company with a huge market presence and an optimal capital ratio. CPP pensioners need to bank on income-generating stocks with the potential of capital appreciation rather than growth stocks with a high beta and are comparatively risky.

One such stock that's appealing to risk-averse investors is Canada's domestic utility giant **Fortis Inc.** (TSX:FTS)(NYSE:FTS). Fortis is an electric and gas utility holding company. The stock is valued at $25.46 billion in terms of market cap, while its enterprise value stands at $51 billion.

In the last 12 months, the stock has gained an impressive 21.3%. Incorporated in 1987, Fortis has grown its assets from $390 million to $53 billion in 2019 and now has a customer base of over three million.

Fortis is a market leader in the regulated gas and electric utility industry, serving customers across the United States, Canada, and the Caribbean.

Stellar increase in shareholder returns

Fortis Inc. is a Dividend Aristocrat. It pays an annual dividend of $1.91 per share indicating a forward dividend yield of 3.5%. Fortis has increased dividend payments for the last 46 years. The company aims to increase dividends by an annual rate of 6% until 2024.

With a payout ratio of under 50%, Fortis has enough room to increase dividends. While its high debt balance of $24 billion might concern investors, with operating cash flows of $2.57 billion, it hassufficient capacity to repay interest and debt.

Over the last 20 years. Fortis stock has increased by 1,363% (as of December 31, 2019). Comparatively, the **S&P/TSX Composite Index** has gained 237%, while the **S&P/TSX Capped Utilities Index** is up 729% in this period.

Fortis is focusing on leveraging its operating model and business footprint to execute growth opportunities. It has a diversified energy delivery business with annual sales estimated at $8.87 billion, a growth of 5.8% year over year. Analysts expect this growth to accelerate to 5.9% to $9.39 billion in 2020.

Investing in clean energy

Fortis claims that 93% of company assets relate to electricity poles, wires and natural gas lines that enable a cleaner energy future. It is now increasing investments in the clean energy segment.

Fortis has increased conservation & efficiency programs to $370 million. It currently operates five RNG (renewable natural gas) facilities and has received regulatory approval to produce RNG at Vancouver Landfill, FortisBC's largest RNG project to date.

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FortisBC owns and operates 19 charging stations and five compressed natural gas stations. Fortis expects to spend $18.3 billion in capital expenditure between 2020 and 2024 with the shift to clean energy driving incremental investments of at least $1 billion in the forecast period.

Fortis' expanding profit margins (EBITDA is estimated to reach $4.5 billion in 2021, up from $3.6 billion in 2018), growing dividend payments and strong fundamentals make it a reliable bet for CPP pension investors.

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