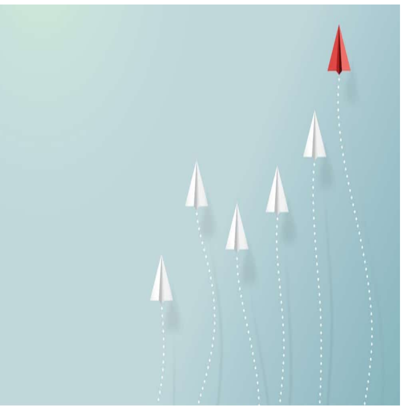

TFSA Investors: This Dividend King Rose 8% in January 2020!

Description

Back in January, I wrote that 2020 might turn out to be *"the year of dividend stocks,"* owing to the fact that many of Canada's top dividend-paying equities offered high yields alongside the potential for gains.

In February, we're seeing early signs that that's coming to pass. While last month's TSX composite results were solid overall, we saw even greater returns from the dividend-heavy TSX 60, which rose 3.09% to the composite's 2.49%.

In this article, I'm going to be taking a "deep dive" look at one dividend stock that stood out from the pack. A utility company that not only beat the TSX composite in January, but handily outperformed the TSX 60. This stock posted a whopping 8% gain in a single month, yet it still has a juicy 3.3% yield and potential for continued dividend increases.

The name of that stock?

Fortis

Fortis Inc (TSX:FTS)(NYSE:FTS) is one of Canada's largest utility companies. It serves power to 3.3 million customers across the U.S., Canada, and the Caribbean, and has $52 billion in assets. The company is well known for its long track record as a dividend aristocrat, having increased its payout every single year for the last 46 years.

This year, Fortis is embarking on an $18.3 billion capital expenditure program. The long-term spending will be focused on infrastructure upgrades and reaching new service areas. One exciting project the company is undertaking is expanding its power transmission reach to remote Northern areas.

Overall, the capital expenditure program will likely increase Fortis' rate base and revenue, though it will also burden the company with additional debt.

Why it rose so dramatically

There are several factors that may have contributed to Fortis' January rise.

First and foremost, there were several reports of large institutional buyers picking up the stock. Notably, Addenda Capital bought 44,000 shares, Ohio Teacher's Pension Fund bought 70,800 shares, and M&G Investment Management picked up 337,833 shares. Institutional buyers picking up large blocks of shares like that can easily drive stock prices up, so it's not surprising that Fortis got a big lift.

Secondly, the stock had a fairly decent third quarter, posting $278 million in net earnings compared to $276 million in the same quarter a year before. The quarterly results also showed that the company had spent $2.6 billion on its capital expenditure plan, including major work on the Wataynikaneyap Power project.

Finally, Fortis' management continues to plan for 6% annual dividend increases over the next five years. Dividend income has always been one of the main draws of FTS stock, and the company looks both ready and able to keep the dividends coming.

Fortis' payout ratio in 2019 was 69%, which isn't low, but isn't especially high either, and certainly leaves room for dividend increases. On the other hand, these continued dividend increases mean that a greater proportion of the company's capital expenditures will have to be financed with debt, contributing to concerns about an over-leveraged balance sheet.

CATEGORY

1. Dividend Stocks
2. Investing

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