Fortis (TSX:FTS) Stock Is Backed by Another Solid Earnings Result

Description

Fortis (TSX:FTS)(NYSE:FTS) stock reported another solid first-quarter result. While earnings were below expectations, they were underpinned by defensiveness and predictability.

This is the company that keeps the lights and heat on. It is the company that keeps us connected to the world around us, which is always important. These days, it is even more important. Fortis powers our laptops and televisions, and keeps us less isolated and more productive. It keeps some aspects of the economy going.

Fortis stock: A stock for a crisis

Fortis's business is defensive. It is the type of business that investors can count on for preservation of capital. This is a quality that is certainly very much in demand in these difficult times. So what if Fortis's stock price isn't rallying after its solid first-quarter result? The point is not the upside but the downside protection. And while we're getting this downside protection, we also benefit from a generous dividend. Fortis's dividend yield is currently a respectable 3.5%.

Fortis is a North American leader in the regulated gas and electric utility industry. A significant portion of its revenue is regulated and/or residential (82%), which is seeing an increase. As such, business has been maintained throughout the pandemic. As an essential service, this can be expected to remain the case.

Fortis's conservative nature has benefited the company. It has $5 billion in liquidity, among the highest in the industry. It is relatively unscathed in this crisis.

Fortis stock: Earnings below expectations

Fortis's earnings came in below expectations due to a number of factors that are not operational in nature. First, we should recognize that earnings were positively impacted by strong rate base growth.

On the negative side, UNS Energy earnings were a drag on the first quarter. UNS is the Arizona-based parent company of Tucson Electric Power and UniSource Energy Services. It provides natural gas and electric energy to almost 700,000 customers. The biggest reason for the weaker earnings was the reduction in the market value of retirement benefit assets.

The other Fortis companies fared much better and were the backbone of the quarter. The company's highly regulated revenue and the essential nature of its business will be its saving grace in the coming months.

Fortis stock to continue to provide investors with dividend income

Fortis has 46 years of consecutive dividend increases under its belt. The company remains committed to its 6% average annual dividend growth guidance until 2024. The goal is to maintain this, as many investors rely on Fortis's dividend for income.

Given the high degree of predictability of Fortis's revenue stream, we can be confident in the reliability of the dividend. We know that the high degree of regulated revenue is protective. But in the unregulated revenue stream, there are additional safety nets.

Trends show that a decrease in commercial and industrial sales is being met with an increase in residential sales. All told, Fortis is seeing a 3% decline in sales at its utilities that do not have regulatory mechanisms. This highlights the relative stability of the company's revenue model.

Foolish bottom line

Fortis stock is not a volatile one. This means that by definition, there is less downside. This also means that there is less upside. Because of this, Fortis represents a very attractive risk/reward trade-off. This is true, especially for the times we are in.

With many companies and stock prices being hit exceptionally hard, we need a place to hide. Fortis offers us this place while providing generous dividend income.

CATEGORY

1. Coronavirus
2. Investing

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. Coronavirus
2. Investing

Date
2025/08/21
Date Created
2020/05/06
Author
karenjennifer