Income Investors: Is This Utility Stock Too Expensive?

Description

I think that the biggest disservice done by central banks to investors was the fact that they inflated stocks so quickly that there was barely enough time for the market to work on its own. When the market reached its March lows, I was just beginning to buy stocks. Prices had finally started to reach the price I was willing to pay.

I have to admit, I thought we would have had at least a couple of months to purchase shares. As it stands, I barely had enough time to begin even entering a position before stocks shot back up. There are perennially good deals still available in the oil sector, of course, and banks are still attractive. One of my favourite sectors, the regulated utilities, is now once again pretty expensive. Should you buy shares today?

Utilities are great long-term investments

In the long run, regulated utilities are great investments. Power generation demands are growing, as more of our lives are relegated online. We need energy generation to power our online purchases, shipments, and smart devices. These demands are rising over time as populations grow.

A company like **Fortis** (TSX:FTS)(NYSE:FTS) exemplifies this trend perfectly. The company has been growing internationally, with operations in the United States and Canada. Currently, 65% of its earnings come from the United States. The favourable exchange rate gives its earnings a boost when they are converted back into Canadian dollars.

Fortis is also focused on delivering cleaner energy over time. It is aiming to be up to 28% renewable energy in 2021 and a continued focus on this environmentally responsible energy going forward.

Dividends

This is the real reason that people purchase this stock. The company has almost a half a century, 46 years, of dividend increases under its belt. With its 99% regulated earnings, you can bet that this streak will continue for years to come. The company estimates a 6% average annual dividend growth through 2024.

Dangers

There are dangers as well as lurking in the sector that investors should take into consideration, especially if you already have a substantial position. The first is the fact that Fortis has a lot of debt. This is not unusual for capital-intensive utilities, but it is still something to consider.

The second and more concerning issue is an interest rate problem. Rates are very low at the moment, forcing many income-dependent investors away from stable investments like GICs into dividend stocks. Fortis is one of the most stable of all, but it is not immune to a downturn. The recent March crash certainly proved that to be the case. Safe stocks are still vulnerable to pullbacks. Furthermore, if rates ever rise again in our lifetime, Fortis shares could drop as they did in 2018.

The bottom line

I love Fortis as a long-term hold. The energy produced by utility companies will be in demand for a long time. The regulated nature of its earnings provides clarity for debt repayment and dividend increases. I will not buy any more shares at the moment, however, as I already own enough, and the price has shot up too high for me once again.

If you don't own any of this stock, you could start to build a position. It might fall in a market crash or, I can't believe I'm saying this, if interest rates ever start to rise. For now, I'm going to kick back, collect my dividends, and wait for a better entry point.

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