Why Fortis (TSX:FTS) Is the Best Dividend Stock to Hedge a Market Crash

Description

Many investors don't like utility stocks, mainly due to their slow stock movements. Utilities don't even have a fancy business model or superior earnings growth to get excited about. However, I think utility stocks are super-effective when it comes to protecting against volatile markets.

Fortis (TSX:FTS)(NYSE:FTS) is one such utility stock that offers stability and an ability to outperform in uncertain markets. Let's dig deeper into Fortis and see why it's an apt pick for almost all market conditions.

Why Fortis?

Fortis operates in five Canadian provinces, nine U.S. states, and three Caribbean countries. In total, it serves almost 3.3 million customers. Almost two-thirds of its consolidated earnings come from the United States. The utility generates almost all of its profits from regulated operations.

These large-scale regulated operations facilitate stable and predictable earnings, which ultimately enable stable dividends. Notably, its earnings are not susceptible to business or economic cycles.

Stocks like Fortis generally play out well in bullish as well as in bearish markets. During the 2008 financial crisis, Fortis significantly beat the **TSX Index**. In the last 10 years, it has returned 120%, while the Canadian broader markets returned only 15%.

Indeed, that stands too low when compared to any other growth stock. However, stability and reliable dividends offered by Fortis are unmatchable.

Fortis generates almost 80% of its revenues from the residential segment, while the rest comes from the commercial and industrial segment. People use electricity and gas irrespective of the economic conditions, and that's why utilities like Fortis are more well positioned to outperform in recessions.

Also, their stable dividends and less-volatile stock movements act as a hedge against market volatility.

Dividends and valuation

Fortis stock is currently trading at a dividend yield of 3.7%, marginally higher than TSX stocks at large. Apart from its premium yield, its dividend growth also higher in the last five years. Notably, it has increased dividends for the last 46 consecutive years.

Utilities normally pay higher portions of their earnings to shareholders in the form of dividends, and thus, they have higher payout ratios. Fortis's average payout ratio comes around 62%, which indicates the safety and potential for future dividend growth.

Fortis stock tumbled to record lows during the COVID-19 crash. However, it was fairly quick to recover and outperformed in the subsequent rally. It is currently trading 20 times its 2020 earnings estimates. This does not look significantly stretched from the valuation perspective. Perhaps investors will take shelter more and more in classic defensives such as Fortis amid increasing broader market uncertainties.

Utility stocks may not be great options to create wealth in a shorter time, but, as I stated earlier, they will be highly useful during volatile markets. I think investors can consider allocating at least some portion of their portfolio to defensive stocks like Fortis.

Investors with only a couple of years to retirement or with smaller time horizons can consider putting in a higher portion of their investment into defensive stocks, while others with a bigger horizon can consider a smaller portion.

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