



Investing \$6,000 in Your TFSA? Should You Buy Fortis (TSX:FTS) or Emera (TSX:EMA)?

Description

When discussing the top sectors in Canada, it would be impossible to exclude utilities from the discussion. The sector contains some of the top Canadian stocks in terms of performance and dividend reliability.

Two notable utility companies are **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) and **Emera** ([TSX:EMA](#)). I like and included both companies in my [definitive Canadian dividend portfolio](#). However, if you had to choose between the two, which should you buy?

Overview

Both companies are included in the **S&P TSX 60**, an index that tracks 60 of the top Canadian companies in leading industries. This speaks to the quality of Fortis and Emera.

Fortis was founded in 1987 and is based in Newfoundland and Labrador. The company distributes electric and gas utilities to over 3.3 million customers in Canada, the United States, Central America, and the Caribbean. As of the end of Q1 2020, Fortis had [\\$57 billion in assets](#).

Emera is an electric and gas utility distributor that was founded in 1998. The company operates in six countries within North America and the Caribbean, reaching 2.5 million customers. As of its latest quarterly report, Fortis has \$32 billion in assets.

Edge: Fortis has more assets, customers, and its network is spread across a greater geographic space.

Valuation and performance

The differences in valuation between the two companies are essentially negligible. As a reminder, for the price to book ratio, I generally look for a value of 1 or lower. For the price-to-sales ratio, I prefer a value of two or lower. In February 2020, the average trailing price-to-earnings ratio for the industry was

23.

Fortis currently has a lower price to book ratio of 1.29 compared to Emera's 1.46. Although, the opposite is true for the price-to-sales ratios, as Emera (2.14) looks more attractive than Fortis (2.67) by that metric. The edge in trailing price to earnings (PE) ratio goes to Fortis, as it has a slightly lower PE than Emera (13.52 vs 14.38).

Year to date, the stocks of both companies have undergone a rough patch. Fortis is down 6.64% since the start of the year, and Emera is 6.55% in the red. The story looks much better when looking at the five-year charts for both companies. Dividends included, Fortis has gained 66.7% over the past five years compared to Emera's 64.1% over the same period.

The final point regarding performance would be each company's revenue growth. Fortis has been able to grow its revenue in each of the past four years (28.44% growth from fiscal years 2016 to 2019). Conversely, Emera's revenue has decreased in the past year (42.88% growth from fiscal years 2016 and 2019).

Edge: Split, both companies have very similar valuations. While Fortis has had more consistent revenue growth, Emera's revenue has grown much quicker in the past four years.

Dividend

Although both companies are Canadian Dividend Aristocrats, an analysis of the respective dividends is probably where Fortis creates a bit of distance between the two companies. Fortis has a forward dividend yield of 3.72%. Its payout ratio is very good, at 49.73%. Fortis also currently holds the second longest dividend growth streak in the country at 46 years.

Although Emera has a more impressive forward dividend yield of 4.60%, its payout ratio is also greater than that of Fortis (67.23%). The company has managed a very respectable current dividend growth streak of 13 years.

Edge: Fortis is more impressive in terms of payout ratio and dividend growth streak.

Foolish takeaway

Both Fortis and Emera are excellent companies. I would stress having both in a dividend portfolio. However, if you had to choose between the two companies, I would choose Fortis.

The company has a more impressive asset portfolio, more customers across a wider geographic range, better dividend payout ratio, and a longer dividend growth streak.

CATEGORY

1. Investing

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TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:EMA (Emera Incorporated)
3. TSX:FTS (Fortis Inc.)

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