3 Reasons I'll Never Sell Fortis (TSX:FTS) Stock

Description

Fortis (TSX:FTS)(NYSE:FTS) was one of the top dividend stocks I'd targeted in the final weeks of 2019. Its shares have climbed 1.8% in 2020 as of close on August 13. The stock is up 3.2% from the prior year.

Today, I want to discuss why I'll never jettison Fortis stock from my portfolio.

Utilities like Fortis can be trusted in the long term

Industries that provide essential services have been top targets during the COVID-19 pandemic. This should come as no surprise. When the pandemic first hit, investors were on the hunt for stocks that were least likely to take a major hit due to the outbreak and subsequent shutdowns. Utilities are certainly essential, and they have performed well during this crisis.

Interestingly, utility stocks have also benefited from monetary policy that has shifted because of the pandemic. Income investors were forced to turn to equities like Fortis and others, as interest rates fell to historic lows in the beginning of the 2010s. Harsh economic conditions in the present environment have pushed rates down further. Moreover, it appears that this will remain the case for the next two years, at least.

Utilities provide an essential service, which makes them a strong defensive option. Meanwhile, historically low interest rates also mean that utility stocks offer a perfect blend of reliability and income that is not met by degraded fixed-income vehicles.

This company is a reliable and strong performer

Fortis has achieved strong earnings growth in recent years. In 2019, the company reported strong annual net earnings of $1.65 billion or $3.79 per share — up from $2.59 per share in 2018. These results were powered by rate base growth across its regulated utilities and favourable foreign exchange. Things looked positive going into 2020.

The company released its second-quarter 2020 results on July 30. Adjusted net earnings came in at $0.56 per share, up from $0.54 in Q2 2019. Its regulated utilities continued to deliver improved financial results in the face of the COVID-19 pandemic.

Even better, Fortis reaffirmed its five-year capital plan of $18.8 billion. This brings me to the next reason to hang onto this stock for the long haul.

Fortis: A future dividend king

In late July, I'd recommended two future dividend kings that were worth holding onto forever. Fortis has delivered dividend growth for 47 consecutive years. Its five-year capital plan aims to increase its rate base from $28 billion in 2019 to $34.5 billion by 2022 and finally $38.4 billion by 2024.

Not only will this capital plan fuel earnings growth, but Fortis anticipates that it will support its dividend increases through the middle of this decade. It is targeting annual dividend growth of 6% through 2024. Fortis has managed to weather the storm of the COVID-19 pandemic and the economic turbulence that has followed. So long as its dividend-growth path remains intact, it is on track to become a dividend king by the end of its capital growth plan.

Fortis last paid out a quarterly dividend of $0.4775 per share. This represents a 3.5% yield. Moreover, the stock possesses a price-to-earnings ratio of 20 and a price-to-book value of 1.4. This puts Fortis in solid value territory relative to industry peers.

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