



## Fortis (TSX:FTS) Stock and This Utility Stock: Which Is a Better Buy?

### Description

Many investors hold utilities in their stock portfolios for safe [dividends](#) and sure returns. **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) stock is a top stock for this purpose.

The COVID-19 pandemic-triggered recession impacted many businesses across the globe but hardly had any impact on Fortis and its peer. Reviewing the business performance of these companies in the first half of the year (H1) reveals how they have fared in this very stressful economic time.

### Fortis stock

At first glance, Fortis's business performance in H1 appeared terrible. The utility reported net income of \$586 million, down 43% from H1 2019's \$1,031 million.

On a closer look, the results reflected one-time items. Most significantly, there was a \$484 million gain on the sale of the Waneta Expansion hydroelectric generating facility in April 2019 that boosted the H1 2019 results.

Consequently, the numbers will be more meaningful when adjusted for these one-time items. Fortis reported adjusted earnings per share (EPS) of \$1.23, down 3.9% from H1 2019.

Therefore, the pandemic is having a dent of an impact on Fortis. Depending on the length and severity of the pandemic, management might shift some of the capital investments for this year to subsequent years. However, it's keeping its five-year capital plan intact. The plan will drive rate base growth of 6.5% per year through 2024.

In other words, the pandemic has no long-term impact on Fortis. Its dividend is safe with a payout ratio of about 73% this year and a solid yield of 3.6% right now.

Based on the 12-month average analyst price target, Fortis has about 12.7% near-term upside potential from the current quotation of about \$53 per share. So, Fortis stock is a reasonable buy at current levels.

## Algonquin stock

**Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) is another recession-resilient North American utility stock investors can consider. Simply put, through Algonquin, investors gain access to a solid utility that provides essential electric, water, and gas utility services, and a growing renewable power portfolio.

In H1, Algonquin's revenue declined marginally by 1.5% to US\$808.5 million against H1 2019. Similar to Fortis, during the period, Algonquin reported adjusted EPS of \$0.28, down 3.4%.

The utility reaffirmed its capital investment plan of US\$1.3-1.75 billion for this year. As well, it maintained its 2020 adjusted EPS estimate of US\$0.65-0.70, which would imply a payout ratio of about 90% this year.

The pandemic has had little impact on Algonquin so far. Its dividend, therefore, appears to be safe. The dividend stock offers a yield of just over 4.4% at writing.

Based on the 12-month average analyst price target, Algonquin has about 11.5% near-term upside potential from the current quotation of US\$13.90 per share. So, the utility stock is a reasonable buy right now.

## The Foolish takeaway

Fortis and Algonquin stocks are reasonably valued today. The most conservative investors should go for Fortis stock, which has a lower yield but a more conservative payout ratio.

Algonquin offers [more income](#) of about 22%, but its payout ratio is about 90%, which gives less protection than Fortis's payout ratio.

Since the stock market is trading near all-time highs but the economic outlook isn't all that bright with high unemployment, investors might be able to buy these dividend stocks at lower prices.

Cautious investors can consider buying Fortis and Algonquin stocks on dips to less than or equal to \$50 and US\$13, respectively.

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2. Dividend Stocks
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kayng

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