



Why You Should Own a Utility Stock

Description

Utilities are great investments but have, unfortunately, developed a reputation as being boring investments. Part of the reasoning for that view stems from the belief that utilities lack the ability or will to [invest in growth](#) initiatives. Fortunately, that's not the case with all utility stocks. **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) is an example that doesn't adhere to the stereotypical view. In fact, there's an argument to be made that every investor should own a utility stock.

Why Fortis is so different

Fortis isn't your typical utility stock. First, Fortis is huge. The company is one of the largest utilities on the continent, with over 3.3 million customers. Fortis has 10 different utility operations located across Canada, the U.S., and the Caribbean. In total, the company has a whopping \$55 billion in assets, which are nearly all regulated.

Utility stocks provide a necessary service to the communities they serve. In exchange for providing that service, utilities receive a recurring revenue stream. The conditions of those utility agreements are bound in long-term regulatory contracts, often referred to as power-purchase agreements (PPAs).

PPAs often span a decade or longer, becoming the source of that recurring revenue stream I mentioned above. By extension, that revenue stream also provides a healthy dividend to investors, and this is where the "utilities are boring" stereotype comes from (more on that dividend in a moment). The belief is that between regulated rates and dividend payouts, there's little room for growth.

Fortis is anything but boring. The company has both the ability and financial muscle to identify and acquire both new facilities as well as other utilities. This is a key factor in how Fortis grew from a \$390 million operation to a \$55 billion operation in just over three decades.

That appetite for growth continues to this day. Lucrative growth prospects are always a good reason to own a utility stock. In the case of Fortis, that potential is huge. Fortis has earmarked a whopping \$19.6 billion over the next five years as part of a capital plan. That plan includes upgrading facilities as well as investing in renewable energy ones. Over the course of fiscal 2020, the company invested a record

\$4.2 billion into those capital initiatives.

Fortis as an income stock

One of the main reasons why investors turn to utilities remains the dividend on offer. In the case of Fortis, the company offers a quarterly dividend with a handsome 4.02% yield. This puts Fortis on the higher-end of returns for the market, particularly within the utility space.

To put that income potential into context, a \$30,000 investment in Fortis today will work out to just over \$100 per month in the first year. Reinvest the dividends for a decade or more, and you could significantly increase those gains. But wait — there's still more.

Fortis recently issued guidance of an average 6% annual growth to that tasty dividend through 2025. Long-term investors of the stock will know that this isn't anything unique. In fact, Fortis has been providing annual handsome bumps to its dividend for well over four decades.

This latest guidance update through 2025 will see Fortis's dividend growth hit a new milestone as a Dividend King with over 50 years of growth. If there ever was a compelling reason to own a utility stock, that might be it!

It's time to own a utility stock

Fortis is a superb long-term investment. The company benefits from a defensive and very reliable business model and has an established precedent in providing growth to investors. There really is little reason to see Fortis as anything else but a [perfect buy-and-forget stock](#).

Buy it, hold it, and get rich.

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