



## ALERT: Canada's Best Dividend Stock Is Cheap

### Description

**Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) is an [energy delivery company](#), and 93% of the company's assets are engaged in transmission and distribution. The business is characterized by low-risk, stable, and predictable earnings and cash flows. Earnings and total shareholder return are the primary measures of the company's financial performance.

### Diverse collection of businesses

The company owns 12 regulated [utility businesses](#) throughout the United States and Canada in areas of electric transmission, natural gas distribution, and integrated electricity. These businesses include ITC, UNS Energy, Central Hudson, Fortis BC Energy, Fortis Alberta, Fortis BC Electric, Newfoundland Power, Maritime Electric, Caribbean Utilities, and Fortis TCI. Fortis also holds equity investments in the Wataynikaneyap Partnership and Belize Electricity.

### Reasonable valuation

The company has a price-to-earnings ratio of 19.23, price-to-book ratio of 1.37, dividend yield of 4.02% and market capitalization of \$23.34 billion. Debt is very sparingly used at Fortis, as evidenced by a debt-to-equity ratio of just 1.22. The company has excellent performance metrics with an operating margin of 28.52% and a return on equity of 6.31%.

### Unique operating model

The company's non-regulated energy infrastructure consists of one natural gas storage facility in British Columbia and three hydroelectric generation facilities in Belize with a combined capacity of 51 megawatts. Fortis has a unique operating model with a small head office in St. John's, Newfoundland, and business units that operate on a substantially autonomous basis. Each utility has a separate management team and a board of directors, which provides effective oversight.

Subsidiary autonomy supports constructive relationships with regulators, policy makers, customers, and communities. This enhances accountability, opportunity, and performance across the company's businesses and positions Fortis well for future investment opportunities. This helps the company to provide safe, reliable, and cost-effective energy service to customers using sustainable practices while delivering long-term profitable growth to shareholders.

## Effective strategy

Management is focused on achieving growth through the pursuit of investment opportunities within the company's service territories. Most of the company's regulated utilities operate as the sole supplier of electricity and gas within respective service territories. Competition in the regulated electric business is primarily from alternative energy sources and on-site generation by industrial customers.

Although the company faces some competition in the transmission business, Fortis is well positioned to succeed. At the company's regulated gas utilities division, natural gas primarily competes with electricity for space and hot water heating load. Provincial government have introduced changes to energy policy, including emission reduction targets and a tax on carbon-based fuels, which is expected to increase in the future.

## Low-risk business model

As all levels of government become more active in the development of policies to address climate change, resultant changes to energy policy has a material impact on the competitiveness of natural gas relative to non-carbon based energy sources. This benefits Fortis immensely.

As the company's subsidiaries operate in various jurisdictions throughout North America, seasonality impacts each utility differently. Most of the annual earnings of the Fortis's gas utilities are realized in the first quarter due to space heating requirements in colder weather.

Despite competition, Fortis is a low-risk company with stable and predictable earnings.

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### Author

nikhilwaterloo

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