Fortis (TSX:FTS) Stock: Why This Dividend Aristocrat Should Be on Your Buy List

Description

Quality dividend-paying companies provide investors with an opportunity to generate a predictable stream of income via dividend payouts as well as increase wealth via share price appreciation over the long term. However, as is the case with equity investing, not every dividend-paying stock is a good investment.

Investors need to identify companies that have the ability to maintain or even increase dividends across economic cycles. **Fortis** (TSX:FTS)(NYSE:FTS) is one such company that has increased its dividends for 47 consecutive years.

Fortis stock has a forward yield of 3.7%

Fortis stock is currently trading at a price of $55 per share, indicating a forward yield of 3.7% given its annual dividend of $2.02 per share. In the last five years, Fortis has increased its dividends at an annual rate of 6.13%.

The company had just $390 million in assets in 1987, and this figure has increased to $55 billion at the end of 2020, making Fortis one of the largest utility players in the world. Fortis operates in the regulated gas and electric utility sector and serves over three million customers in 17 jurisdictions across Canada, the U.S., and the Caribbean.

Fortis aims to expand and diversify its asset base through investment opportunities in infrastructure, renewable power as well as via strategic acquisitions. Around 99% of the company's assets are regulated, allowing Fortis to generate stable cash flows across economic troughs and peaks. In the last 20 years, Fortis stock has generated annual returns of 13% to shareholders making it one of the top dividend companies on the TSX.

In the next five years, Fortis is expected to spend $19.6 billion in capital expenditure, allowing it to increase dividend payouts at an annual rate of 6% through 2025. The company expects to increase its low-risk rate base at a CAGR of 6% from $30.5 billion in 2020 to $40.3 billion in 2025.

A rate base is basically the value of the property on which a utility company is allowed to earn a specific rate of return. In 2020, Fortis increased its capital expenditure by $400 million to $4.2 billion while its rate base was up 8% in the last year.

The company managed to increase earnings amid the pandemic

Last year, Fortis expectedly experienced higher residential sales, which helped the company offset lower commercial and industrial sales. Around 83% of its revenue is derived from residential sales or protected by regulatory mechanisms.

In Q4, the company's adjusted earnings were up $43 million year over year at $320 million, or $0.69 per share. In 2020, adjusted earnings soared 7% year over year to $1.2 billion, or $2.57 per share.

The utility giant is now ramping up investments to diversify its renewable energy portfolio. It invested $500 million in the Oso Grande Wind Project in Arizona. The 250-megawatt wind generation facility is owned by Tucson Electric Power and will complement the latter's already existing solar generation portfolio.

The Foolish takeaway

We can see why Fortis stock should be part of your equity portfolio. Its diversified base of cash-generating assets, widening earnings, and expanding renewable energy portfolio make it a top stock to buy and hold for 2021 and beyond.

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