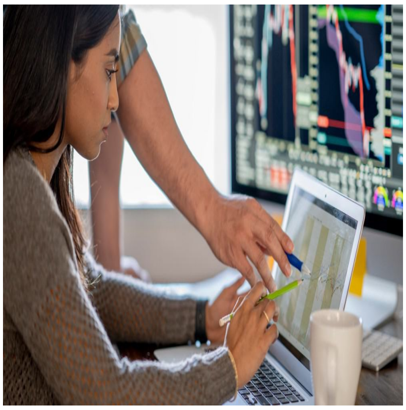

Fortis (TSX:FTS) Stock Is My GIC: Only Better!

Description

In the past, I've traded **Fortis** (TSX:FTS)(NYSE:FTS) stock — buying it when it's attractive and selling it when it's around fairly valued. Generally, for defensive stocks, I require the investment to deliver estimated total returns of at least 10% per year, which, for Fortis, implies a 4% yield and 6% growth.

As a Canadian Dividend Aristocrat with quality earnings, Fortis stock's valuation can be measured with its dividend yield.

FTS Dividend Yield data by YCharts.

Its 10-year dividend yield history shown above indicates that the dividend stock is relatively cheap when it goes for a yield of 4% or higher.

I most recently bought Fortis shares in February for an initial yield of 4.1%. Perhaps this time around, I'll leave my Fortis shares alone because it's sort of like my GIC — only better!

To give you a bit of a background, I hold an all-stock portfolio and cash. No bonds, GICs, or preferred shares mostly because stocks tend to outperform other asset classes and are also my forte. So, Fortis stock is considered the lowest-risk type of investment in my portfolio.

Cash is not without risk, however. Specifically, inflation will eat away the value of your cash. The Bank of Canada's long-term targeted inflation rate of 2% is much greater than the interest rates provided in savings accounts. Therefore, Canadians need to lock in their cash in five-year GICs to simply maintain their purchasing power.

Why Fortis stock is better than GICs

Fortis stock is better than GICs. It provides a dividend yield of 3.6% and a forward yield of more than 3.8% (assuming a 6% dividend increase in September).

The best one-year and five-year GICs yield 1.55% and 2.10%, respectively. Consequently, from an income perspective alone, Fortis is already better than GICs.

Notably, the management at Fortis is also committed to increasing the utility stock's dividend by about 6% annually through 2025. This means the income shareholders earn from Fortis will grow faster than inflation and therefore more than maintain purchasing power.

The dividend growth is supported by underlying business growth. Fortis's secured growth comes from its $19.6 billion five-year capital program across its businesses, including regulated electric and gas utilities in the U.S., Canada, and the Caribbean, and a regulated independent electric transmission business in the U.S.

Since 85% of the capital program consists of small projects, the execution risk is low. Additionally, Fortis has a strong track record of execution. If not, it wouldn't have one of the longest dividend-growth streaks among **TSX** stocks. Specifically, Fortis stock has increased its dividend for 47 years.

Additionally, many GICs are locked in for a set period. If you choose to take the money out before the maturity date, you either get lower interest or none at all.

In contrast, Fortis stock is very liquid on the stock market and easily tradable. It also pays a quarterly dividend. So, if I bought the stock at a 4% yield, in the first year, I'd get about 1% every three months. And I'm free to sell it anytime if I wish to.

And one more thing…as Fortis stock grows its earnings and dividends over time, it becomes more valuable and its stock price appreciates.

CATEGORY

1. Dividend Stocks
2. Investing

3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/08/20
Date Created
2021/04/26
Author
kayng