



Fortis (TSX:FTS) Stock: Dividend Hike Coming Soon!

Description

Fortis ([TSX:FTS](#))([NYSE:FTS](#)) stock investors know what they're buying — a low-beta dividend stock with a sustainable payout ratio. The regulated utility is expected to increase its dividend again soon. According to its usual dividend hike schedule, it will announce a dividend increase sometime in September. That's only about three months away!

Management plans to increase its dividend per share at a compound annual growth rate (CAGR) of approximately 6% through 2025. So, investors should hold on to their Fortis stock for the predictable stream of dividend income!

The dividend stock's current annualized payout is \$2.02 per share. An approximate 6% raise implies a forward payout of \$2.14. The recent quotation of \$56.96 per share suggests a forward yield of about 3.76%.

That's an attractive yield for retirees and income investors given today's low interest rate environment. In fact, these investors have gravitated towards dividend stocks, because fixed-income investors don't get much of a yield these days.

For example, the best five-year GIC rate is 2.2%. In essence, investors are locking their money in the GIC for the period for a CAGR of 2.2%. You could go with a one-year GIC for more flexibility but the best rate is 1.55%.

An investment in Fortis stock is much more flexible. You can sell at any time after purchase. However, you'll need to hold the shares for about a year to get the dividend income that comes out to a yield of about 3.5% currently (expected to be about 3.7% after the dividend increase in September).

How much income can you get with \$5,000 invested?

Here's a more concrete example. If you invest \$5,000 in the best five-year GIC today, you'll end up with approximately \$5,575 in five years from the annually compounded 2.2%. It's an instrument that guarantees to pay back your \$5,000 principal and an interest rate of 2.2%.

If you invest \$5,000 in Fortis stock today, you are expected to receive a total dividend income of about \$1,057 in the five-year period, assuming a 6% dividend-growth rate. That would be like getting one-fifth of your original investment back, equating to annualized returns of about 3.9%.

Get steady price appreciation from Fortis stock as well

However, there's more. The utility is also becoming more valuable over time. It's raising its dividends because it's earning more. The rising earnings, in the long run, will also drive its stock price higher. So, long-term investors will also experience price appreciation in their Fortis stock holding.

To increase your chance of near-term price appreciation, investors should aim to buy stocks when they're trading at bargain valuations. At the very least, do not overpay for your shares, or you could experience a stagnant stock at best and a correction in the stock at worst. This correction is the kind triggered by an expensive stock being sold off to return to its normal valuation.

Currently, Fortis stock is reasonably valued, according to the analyst consensus 12-month price target of \$59.39 per share. This price target will move steadily higher over time, as the [utility](#) becomes more valuable.



FTS dividend yield data by YCharts.

So, investors who need income now can consider adding the stock. However, if you're looking for a bargain in [Fortis stock](#), consider waiting until it provides an initial yield of at least 4%. That implies a

maximum buy target of \$53.50 per share based on a 6% dividend increase in September.

CATEGORY

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

POST TAG

1. Editor's Choice

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

default watermark

Category

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

Tags

1. Editor's Choice

Date

2025/07/27

Date Created

2021/06/16

Author

kayng

default watermark