Why Fortis (TSX:FTS) Is the Best Dividend Stock to Hold for Decades

Description

Markets look strong and can continue to soar higher post-pandemic. However, it's prudent to check whether your portfolio can withstand periodic weaknesses and volatility surges. That's why a decent exposure to defensive stocks makes sense. It won't totally protect your portfolio from crashes but will provide stability and passive income amid uncertainties. Top Canadian utility stock **Fortis** (TSX:FTS)(NYSE:FTS) is a classic defensive stock you can consider for your defensive portfolio.

Fortis: Stable earnings and dividends

The $26 billion utility company Fortis operates in five Canadian provinces, nine U.S. states, and three Caribbean countries. It collectively caters to approximately 3.4 million customers. It started in 1987 with $390 million in assets, while its assets have grown to $56 billion in 2021. Fortis generates roughly all of its profits from regulated operations, facilitating predictable earnings, which eventually enable stable dividends.

Utilities are perceived as recession-resilient investments, because they provide steady returns in almost all kinds of economic scenarios. That's because, regardless of the economic conditions, people use electricity and gas, generating stable cash flows for utilities. Be it the 2008 financial crisis or the pandemic, utility stocks like Fortis have delivered stable returns. Fortis has managed to increase its dividends for the last 47 consecutive years.

Fortis currently yields 3.7%, which is marginally higher than Canadian stocks at large. Last year, it paid out 67% of its earnings as dividends to shareholders. Interestingly, it's not unusual for utilities. Utility stocks are seen as bond substitutes mainly due to their stable dividends.

Fortis for the next decade

Fortis has delivered stable returns, driven by its dividends in the past. But can it continue doing so for the next decade and beyond?

That’s highly likely because of its earnings visibility. Fortis intends to invest $19.6 billion in capital projects through 2025, which will increase its rate base to $40 billion. It plans to raise shareholder payouts by 6% compounded annually through 2025. That’s a decent growth expected to beat inflation.

Some analysts opine that utility stocks will underperform as interest rates start to increase. However, stocks like FTS boast a decent yield premium for the next couple of years, given the gradual pace of rate hikes.

Can FTS stock continue to outperform?

Utilities do not have a jazzy business model that doubles investor money every year. However, stocks like Fortis stand tall when broader markets turn volatile. They are less correlated with broader markets and, thus, outperform in falling markets. Also, their stable dividends compensate investors to some extent.

Fortis has returned 13% compounded annually for the last two decades, outperforming the **TSX Composite Index**. If you’d invested $10,000 in FTS stock in 2001, you would have accumulated nearly $130,000 today, including dividends.

Even if you are an aggressive, risk-taking investor, it makes sense to park some portion of your portfolio in defensive, dividend stocks. The dividend income generated by such a modest allocation will take care of your expenses in your retirement years.

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