3 Key Takeaways From Fortis (TSX:FTS) Earnings This Morning

Description

Fortis (TSX:FTS)(NYSE:FTS), Canada's favorite dividend stock, declared second-quarter earnings this morning. Here are the top three highlights from the report.

Earnings miss expectations

Fortis declared $253 million in net profit or $0.54 earnings per common share. That's slightly lower than what analysts on Wall Street and Bay Street expected. The consensus expectation was 5 cents higher.

According to management, one-off expenses this quarter lowered earnings by a single cent. That means the adjusted earnings were more-or-less in line with expectations. This is probably why the stock price is flat this morning after the report was announced.

Betting on the future

In the first six months of 2021, Fortis deployed $1.7 billion in capital expenditures. That means it is on track to meet its target for capital investments this year.

These investments could be higher-than-expected if currency exchange rates fluctuate too much. But overall, the management team expects steady expansion for the years ahead. Now that the crisis is ending, the team believes the path ahead is more predictable. They're aiming for 6.5% compounded annual growth over the next three years. The rate could slow mildly to 6% over the next five years.

At a 6% growth rate, the company's intrinsic value could double by 2034. Meanwhile, its dividends should keep steadily increasing as they have over the past 47 years. This Dividend Aristocrat is still a reliable passive income bet.

Growing more sustainable

Fortis' efforts to future-proof itself seem to be going well. Last year, the company reduced its emissions by 15%, which is the equivalent of taking 40,000 cars off the roads. This year, the company's subsidiary in Arizona, Tucson Electric Power, added 250-megawatts of wind power to its portfolio. Along with its solar and battery projects, 25% of this subsidiary's production could be renewable soon.

Efforts like these could reduce Fortis' regulatory risks in the future. As governments move to reduce carbon emissions with stricter controls and financial disincentives, these investments protect Fortis' future as a utility. It's another factor that makes Fortis stock one of the most reliable dividend stocks on the market.

Should you buy Fortis stock?

Fortis stock currently trades at a price-to-earnings ratio of 20.8. Assuming earnings increase 6.5%, as expected, the forward PE ratio is 19.5. That implies an earnings yield of 5%.

Meanwhile, Fortis stock offers a 3.6% dividend yield, which means some of the earnings are retained for capital reinvestment and contingency. In other words, Fortis has plenty of room to support and expand the dividend over time. This latest quarter indicates that it's meeting all targets, which makes its future growth plans much more believable.

Fortis isn't a hyper-growth story. But if you're looking for safe and reliable passive income, this stock is one of the best.

Bottom line

Fortis stock is fairly valued and its latest earnings report was just shy of expectations. For long-term investors, this is all great news.

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