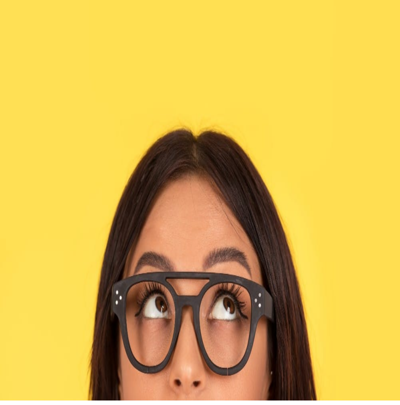

New Investors: No-Brainer Dividend Stock Investing

Description

Dividend stock investing is relatively simple to learn for all walks of life. So, no matter if you are newly retired, just had a kid, or are a high school student who wants to invest the savings from your summer job, dividend investing can work beautifully for you.

There are thousands of stocks to choose from. To save time and immediately filter for potential quality dividend stocks, start selecting from the Canadian Dividend Aristocrat list. This list consists of dividend stocks that have increased their dividends for at least five years.

Learn from dividend stock Fortis

One of the best examples for learning is **Fortis** (TSX:FTS)(NYSE:FTS) stock. The dividend stock is quality in a number of ways.

First, it has one of the longest streaks of dividend growth among public Canadian stocks. It has raised its dividend for almost half a century!

Second, by observing its earnings history for at least the past 10 years, which covers an economic cycle, we find out that it has highly stable earnings. Specifically, its earnings per share only dropped in one year — and only by 1%. There was one year where its earnings were flat, while the other years witnessed earnings growth. This means that the dividend stock could maintain its dividend as long as it keeps a sustainable payout ratio.

Because of its highly stable earnings, Fortis's payout ratio of about 75% of earnings is sufficient to protect its dividend.

Fortis stock's 10-year dividend-growth rate is 5.6%. It targets to increase its payout by about 6% per year through 2025. The consistent rate of 5-6% signifies the predictability of the regulated electric and gas utility. Management didn't just project it for the next two years, which, again, suggests a low-risk, highly predictable business.

Digging a little deeper into the business, you can see why it's low risk. It's a regulated utility with defined returns on equity on its assets. Moreover, it is largely made of distribution and transmission assets that have little uncertainty. Its $19.6 billion 2021-2025 capital plan includes two-thirds of distribution and transmission projects, which supports the overweight in those assets. Management sees this capital plan driving low-risk rate base growth of roughly 6%, which matches with the projected dividend-growth rate.

Fortis stock's valuation

You want to pay for a low valuation to maximize your yield and total returns. However, the market rarely provides opportunities to buy [Fortis stock] at a bargain. In fact, the dividend stock commands a premium valuation because of its low risk and high quality.

For example, its long-term normal price-to-earnings ratio (P/E) is about 19.4. You would be very lucky to pick up some Fortis shares at a P/E of about 18, which is approximately $49 per share based on this year's estimated earnings.

With a dividend stock as low uncertainty as Fortis, you can use its recent yield history as a guide for when to buy. Its five-year yield history suggests that you should buy the stock whenever it yields +4%.

FTS Dividend Yield data by YCharts.

The Foolish investor takeaway

New investors can choose low-risk, quality dividend stocks from the Canadian Dividend Aristocrat list to begin their [dividend investing] journey. With a focus on dividend safety, dividend growth, business quality, and valuation, you should be able to generate long-term returns of +7% while earning a growing dividend income.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

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

PARTNER-FEEDS

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