1 Canadian Utility Stock to Buy Now for Both Income and Growth

Description

Utility stocks are a preferred choice of income investors. Thanks to their regulated and contracted assets, utility companies generate predictable cash flows that drive dividend payouts. Besides offering regular cash inflow, utility stocks add stability to one's portfolio on account of their low-risk business and resilience to economic cycles. Furthermore, they provide steady growth in the long term on the back of their high-quality earnings base.

However, before buying a utility stock, one should focus on the company's growth and capital-investment plan. Equally important are the balance sheet and the dividend-payment profile. With that in the backdrop, let's dig deeper into one Canadian utility stock, which I believe has all the right mix to deliver stellar total shareholder return (TSR) consistently.

A top utility stock

After examining the Canadian utility sector, I have zeroed in on **Fortis** (TSX:FTS)(NYSE:FTS) stock for its consistent performance, solid balance sheet, stellar rate-base growth outlook, and robust dividend payment history.

Fortis is one of the top companies in the regulated electric and gas utility sector. The company's total assets stood at $56 billion at the end of Q2 2021. Moreover, it generated revenues of $8.9 billion in 2020.

Thanks to its regulated, low-risk, and diversified assets, Fortis delivered an average annual TSR of 13% in the last 20 years. The return indicates that a small investment of $100/month in Fortis stock for 20 years would now be worth $114,552.

Rate base is an important metric to pick utility stocks, as it is the asset base upon which a utility company earns returns. Fortis's $19.6 billion five-year capital plan will likely increase its mid-year rate base to $36.4 billion by 2023 from $30.5 billion in 2020. Moreover, its rate base is likely to reach $40.3 billion by 2025.

Fortis's rate-base projection reflects a compound annual growth rate of 6% over the next five years, which is encouraging. Besides its capital plan, the company plans to pursue further infrastructure opportunities, which bodes well for growth.

Fortis is targeting infrastructure investments, strategic acquisitions, and expansion in renewable energy space to accelerate growth. The company is transitioning towards carbon-free power generation and expects to reduce emissions by 75% by 2035.

Earnings support higher dividend payments

Thanks to its high-quality assets and rate-base growth, Fortis has consistently increased its dividend payments (47 years in a row). Looking ahead, the company expects its rate-base growth to support earnings and drive dividend payments.

Notably, Fortis projects a 6% increase in its annual dividend over the next five years and is yielding about 3.5% at current price levels.

Bottom line

Fortis’s resilient assets, solid capital plan, and focus on infrastructure investments augur well for future growth and will likely drive its stock price. Meanwhile, rate-base growth, higher electricity sales, and new customer rates will likely drive its revenues and cushion its earnings.

Fortis stock has gained about 13.5% this year and is trading at a forward EV/EBITDA multiple of 13.1, which is in line with its historical average.

Overall, I see Fortis as a top investment for investors eyeing a low-risk stock with the potential to deliver consistent returns.

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