1 Top Defensive TSX Stock to Buy Now

Description

Investors with some cash to put to work in their TFSA or RRSP portfolios might want to consider buying top TSX stocks that are defensive plays in the current market environment. The **TSX Index** is due for a correction, so it makes sense to buy stocks that tend to hold up relatively well during a market pullback.

Let's take a look at **Fortis** (TSX:FTS)(NYSE:FTS) to see why it might be an interesting pick right now.

Fortis operations

Fortis gets nearly all of its revenue from regulated assets. This means cash flow is generally predictable and reliable in most economic conditions. The businesses include power production, electric transmission, and natural gas distribution services. People and companies need to keep the lights on and cook food regardless of what is going on in the financial markets.

Fortis grows through a combination of strategic acquisitions and organic projects. Over the past decade, the company has proved that it can do big deals and successfully integrate the new businesses into the portfolio. This was the case with the 2016 purchase of ITC Holdings for US$11 billion in 2016. Fortis might be gearing up for another acquisition after the recent hiring of an investment banker who has helped Fortis with mergers in the past.

Fortis continues to progress its $19.6 billion capital program. The new assets will boost the rate base from roughly $30 billion in 2020 to $40 billion in 2025.

Dividends

The board intends to increase the dividend by an average of 6% annually over the next four years.This is great for investors who simply want to buy a stock and forget about it, knowing that the payoutwill grow steadily. If the stock price pulls back, investors who use the distributions to buy additionalshares can benefit from the cheaper price.

Fortis raised the dividend in each of the past 47 years, so investors should be comfortable with the guidance. The actual dividend hikes might turn out to be larger if Fortis adds new projects to the capital program or makes a new acquisition that is immediately accretive. The company has a number of developments under consideration that are not included in the current growth plan.

At the time of writing, the stock trades near $57 per share and offers a 3.5% yield.

Risks

A spike in interest rates and a jump in government bond yields would likely put pressure on the share price. Utility stocks often compete with fixed income for investor funds. When returns on GICs and government bonds increase, funds can flow out of the safe-haven dividend payers. Higher borrowing costs also reduce cash available for payouts. Fortis uses debt to fund its capital programs and acquisitions.

Strong dividend growth should offset the impact of a slow increase in interest rates, but investors need to keep the risk in mind when evaluating the stock. In the event the U.S. Federal Reserve and the Bank of Canada move rates higher by larger amounts than expected and sooner than anticipated, Fortis would likely take a hit.

The bottom line

Fortis has a great track record of dividend growth, and long-term holders of the stock have enjoyed fantastic returns. A $5,000 investment in Fortis 25 years ago would be worth about $100,000 today with the dividends reinvested. If you want a defensive pick for your portfolio, Fortis deserves to be on your radar.

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