1 Canadian Utility Just Hiked its Dividend: What About Fortis Stock?

Description

One thing dividend investors like about regulated utility stocks, including **Emera** (TSX:EMA), is that they're as predictable as dividend stocks go. Emera management targeted a dividend-growth rate (DGR) of 4-5% from 2020-2022. It increased its dividend by 4.2% in 2020 and just increased its dividend by 3.9%. This equates to a compound annual growth rate of 4% that fits snuggly in that range.

The point of dividend investing is to get a stable stream of growing dividend income. Emera has increased its dividend for 14 consecutive years. Investors who bought the dividend stock 10 years ago would have started with an initial yield of about 4.2%, and those shares would have a yield on cost (YOC) of about 8.2% today. The total returns would be about 8.9% per year, which is decent for the low-risk stock.

The stock is low risk in the sense of having stable earnings and providing a nice-yielding, (4.6%) safe dividend. Investors must further lower the risk of the investment by buying at a good valuation. The stock is fairly valued at $57.56 at writing and would be a better buy on a further correction, perhaps if it hits a 5% yield.

Emera's operations are about 95% regulated with gas or electric utilities in geographies like New Brunswick, Newfoundland & Labrador, Nova Scotia, New Mexico, and more. Its trailing 12-month (TTM) revenue is about $5.5 billion and earns approximately 68% of its earnings from the United States.

It's investing at least $7.4 billion in the business this year through 2023, maintaining rate base growth that will support dividend growth. The investments also take into account the long-term goal of net-zero carbon dioxide emissions by 2050 with milestones in between.

What about Fortis stock?

Fortis (TSX:FTS)(NYSE:FTS) stock is Emera's bigger peer that's also a regulated utility. Fortis's TTM revenue is $9.1 billion and earns about 66% of its operating earnings from the U.S. and the Caribbean.

Almost all of Fortis's assets are regulated and 93% is for transmitting and distributing energy. Its portfolio is more diversified with gas or electric utilities in British Columbia, Alberta, Ontario, Prince Edward Island, Newfoundland & Labrador, Arizona, New York, and more. Other than having regulated electric and gas utilities, it also has FERC-regulated electric transmission operations in nine states!

If you like Emera's growing dividends of more than a decade, you'll love Fortis's streak of 47 years (and going). Fortis stock also stands out from the crowd for outperforming the utility sector (by more than 100%) and the stock market (by 379%) over the past 20 years.

Fortis has a high visibility for growth. Management targets to grow its dividend by 6% on average per year through 2025. Its 10-year DGR is 5.6%. So, it has been keeping its dividend hikes consistent. Its dividend increase for this year will come any day now.

Investors who bought Fortis stock 10 years ago would have started with an initial yield of about 3.4% and those shares would have a YOC of about 5.9% today. The total returns would be about 7.5% per year, which is decent for the high-quality stock.

Wait a minute…

If you have been reading closely, you would notice that Fortis stock's 10-year returns were lower than Emera stock's. Emera investors made more money in the period, because the stock's price-to-earnings ratio moved higher. Specifically, Fortis stock traded at about 21 times earnings at the start of the period. So, it only got a 2% stock price gain for valuation expansion. In stark contrast, Emera stock traded at about 17.8 times earnings initially and got a 17% boost in price appreciation from valuation expansion.

So, the key takeaway is to buy when the stocks are trading at attractive valuations. You would get a higher yield, lower your risk, and boost your expected returns.

When should you buy the dividend stocks? Fortis stock could be a great long-term buy for income on another 5% dip to the $53 range. What about Emera? A dip to a 5% yield would be awesome.

CATEGORY

1. Dividend Stocks
2. Investing

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