Should You Buy Fortis (TSX:FTS) or a 7.5%-Yielding Royalty Stock?

Description

Despite the TSX's credible performance last month, no one can predict how November 2021 will turn out. Canada's primary stock market index had a few dips in October and achieved a 14-day win streak. While the Bank of Canada maintained the interest rate benchmark at 0.25%, there's pressure to raise it due to rising inflation.

The homestretch could be rocky, and investors need to prepare. Usually, when the going gets tough, many people flock to **Fortis** (TSX:FTS)(NYSE:FTS) for capital protection and dividend safety. However, yield-hungry investors don't find the utility stock's dividend yield (3.89%) palatable.

Apart from outperforming the Fortis (+25.44% versus +8.91%) thus far in 2021, **Diversified Royalty** (TSX:DIV) pays an overly generous 7.5% dividend. Price-wise, the royalty stock trades at $2.80 per share compared to the $55.09 tag price of the top-tier utility stock.

For further comparison, a $20,000 investment in Fortis will generate $778 in passive income. However, a $10,000 position in Diversified Royalty will produce dividend earnings of $750. If such is the case, should income investors buy Fortis or gamble on the high-yield multi-royalty company?

Top-tier defensive asset

Utility stocks are boring investments to some stock market players. For example, Fortis hardly fluctuates such that you can't expect much on capital gains. However, it's not a dividend trap when the market turns haywire. Some dividend-paying companies will slash or stop their payouts during economic downturns.

The $25.95 billion regulated electricity and utility company hasn't disappointed loyal investors. Fortis boasts 47 consecutive years of dividend increases to earn Dividend Aristocrat status. Moreover, it has a $1.8 billion capital plan that should increase the capital base to $40.3 billion by 2025.

Fortis's pursuit of additional opportunities for expansion and extension is ongoing, particularly with the transmission grids in the United States. The transition to a cleaner energy future has begun as part of the corporate-wide target to achieve a 75% reduction in carbon emissions by 2025.

Management expects the long-term growth in rate base to support earnings growth. The current goal is also to reward investors with approximately 6% annual dividend growth through 2025. In the first half of 2021, Fortis reported a 4% increase in net earnings versus the same period in 2020.

Positive trends

The royalty partners of Diversified Royalty experienced business reversals during the COVID year. Fortunately, things are turning around for positive trends in the respective businesses of AIR MILES, Mr. Lube, Mr. Mikes, Sutton, Nurse Next Door, and Oxford Learning Center.

Diversified Royalty reported decent top-line growth and a vastly improved bottom line after the two quarters in 2021. Total revenue grew 24% to $16.78 million, while net income reached $9.34 million. In the first half of 2020, the multi-royalty corporation lost $8.85 million.

Because of the impressive financial results and positive trends in the businesses of the royalty, the board of directors approved a 5% increase in the monthly dividend. Monthly income stocks attract investors, because the dividend frequency is 12 times a year instead of the usual four.

Know your risk appetite

The choice between Fortis and Diversified Royalty depends on your risk appetite, affordability, and dividend yield. Risk-averse investors would likely lean towards the utility stock. The royalty company is quite risky, although the price is incredibly low and the dividend yield is over the top.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:DIV (Diversified Royalty Corp.)
3. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. cliew
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/08/18
Date Created
2021/11/06
Author
cliew