Defensive Income Investors: This Stock Is for You

Description

The holiday season usually brings with it a sense of optimism in the market. There's the expected rally from the retail sector that will follow the "Black Friday" shopping event. But where should prospective investors turn to this holiday season? Let's look at a less-volatile option that will appeal to defensive income investors.

That option to consider is **Fortis** (TSX:FTS)(NYSE:FTS).

What makes Fortis a buy for defensive income investors?

One of the first questions that prospective investors may be asking is, what exactly makes Fortis such a strong buy? To answer that, we need to talk a bit about Fortis's business model.

Fortis is a utility. Actually, more specifically, Fortis is a *huge* utility. The company is a $57 billion behemoth that has utility operations scattered across the U.S., Canada, and the Caribbean. Those utility operations are nearly all regulated, backed by long-term contracts that can span for decades.

This means that those facilities generate a recurring and stable revenue stream for Fortis, which can last for decades. Fortis also boasts a whopping 3.4 million utility customers across both its gas and electric segments.

The appeal for defensive income investors stems from the fact that the utility service that Fortis provides is a necessity. That passive nature actually elevates Fortis's appeal beyond other basic necessities, such as food for investors. In short, you can always choose to buy less-expensive food when times are tough, but your energy bill can't be reduced in that same manner.

In terms of results, in the most recent quarterly update, Fortis reported earnings of $295 million, reflecting a $3 million uptick over the same period last year. On an adjusted basis, Fortis earned $0.64 per common share.

What about growth?

One of the common stereotypes associated with utility stocks is that they lack the financial muscle or even the incentive to invest in growth initiatives. When it comes to Fortis, this couldn't be further from the truth.

Fortis is well known for its aggressive stance on expansion. In recent years, that stance has shifted from new acquisitions to investing in existing facilities. Part of that investment relates to transitioning facilities over to renewable energy, which addresses another common misconception.

During its most recent earnings call, Fortis announced a new five-year capital plan for the period through 2026. That capital plan comes in at a whopping $20 billion and represents a clear path for Fortis to reach its greenhouse gas reduction target. That target calls for a reduction in greenhouse gas emissions by 75% by 2035.

What about income?

Fortis wouldn't be a stellar investment for defensive income investors if it didn't boast one of the best dividends on the market. The current quarterly yield works out to an impressive 3.78% yield. What this means in terms of earnings is that a $35,000 investment in Fortis in your TFSA will provide just over $1,320 income during the first year.

Further to this, there are two more factors to keep in mind.

First, Fortis continues to provide investors with annual hikes to that dividend. In fact, Fortis has provided investors with that annual bump for 48 consecutive years. The most recent annual uptick of 6% was announced during the most recent quarter. During that announcement, Fortis also announced plans to continue that annual 6% uptick through 2025.

That will put Fortis on track to become the first Dividend King in Canada with 50 consecutive years of growth. That may be reason enough for defensive income investors to buy the stock now.

Finally, let's talk about reinvestments. Income stocks aren't only great for those investors looking at drawing an income right away. Investors with long-term investment timelines can and should invest in Fortis. Not only will those investors be diversifying their portfolios, but they will be allowing those future reinvestments to boost their future income potential further.

In my opinion, Fortis is a great long-term option that should be part of every well-diversified portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. 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. dafxentiou
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/07/20
Date Created
2021/11/24
Author
dafxentiou