Is Fortis Stock Really the Best for Passive-Income Investors?

Description

Fortis (TSX:FTS)(NYSE:FTS) has long been touted as perhaps the best dividend stock for passive-income investors on the **TSX**. And it's clear why. Fortis stock continues to increase its dividend each and every year, even during some of the hardest economic times in Canadian history.

Fortis stock will soon declare itself the sole Dividend King on the TSX. That's 50 consecutive years of dividend growth! So, if you want stability and increasing passive income, Fortis stock is for you.

But does that necessarily make it the *best*? Let's look and why and perhaps why not.

What bulls say

We have to first look at what Fortis stock offers as a dividend stock. The company is able to increase its dividend each year because of its steady supply of income. The utility company continues to see revenue come in, even during recessions. This has led it to increase its dividend, but also to expand its operations.

Fortis stock now operates through North America and into Caribbean countries. It generates electricity through hydro, wind, solar and natural gas power. It also has about 50,500 kilometres of natural gas pipelines. So, when it comes to energy, Fortis has its hand in just about every pie.

And, of course, with Fortis stock already into renewable energy, it's clear the company will be able to make a smooth transition as the world shifts in that direction. This will ensure even more revenue increases over the years.

As for its dividend, Fortis stock offers a 3.32% dividend yield as of writing. The company recently increased the dividend by 6%. However, over the last decade, it's increased the dividend by 76%! That's a compound annual growth rate (CAGR) of 5.81%.

The bear case

What could possibly be the downside to Fortis stock? It has a stable, increasing dividend that's entering 50 years. And it has a solid balance sheet that continues to expand, as it acquires businesses and finds organic growth as well. The answer? Its shares.

While the company offers a solid dividend, I'm just not sure it's enough to allow passive-income investors to overlook returns as well. If you're just in it for dividends, there are other options with higher passive income. If you're looking for a mixture of both, there are better options as well.

For example, if you want stability, I would choose an exchange-traded fund (ETF) with a focus on dividends rather than Fortis stock. Choosing one company is putting all your eggs in one basket. What if something goes wrong? Instead, choosing an ETF with a focus on multiple companies providing dividends ensures stable growth, with a management team there to shift things around if need be.

If you want solid returns and stable dividends, I would also look at the Big Six banks. These banks have paid out dividends for over 100 years. While they don't increase every year, they increase at higher rates. And those banks are certainly not going anywhere, making them a solid defensive play. Furthermore, their returns are much higher than what Fortis stock offers.

Foolish takeaway

Fortis stock could be a great option for your passive-income portfolio. But is it the best of the best? I'm not so sure. Frankly, I would choose one of the Big Six banks for a mixture of returns and dividends over Fortis. And for a focus on passive income, I'd rather have an ETF that all but guarantees further payouts.

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