



Fortis (TSX:FTS) Stock up a Solid 5% in 2022

Description

Energy stocks rule the **TSX** thus far in 2022, thanks to the elevated crude prices. Many of the top price performers belong to the energy sector. However, the high flyers aren't necessarily the best hedges against the runaway inflation today. **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) in the utility sector remains the ideal option for [risk-averse investors](#).

The top-tier utility stock is up by only 5% year to date (\$62.81 per share), but the performance belies its low-volatility and bond-like features. Fortis has a dividend-growth streak of 48 years and is on track to become Canada's second Dividend King, after **Canadian Utilities**, by 2023. Moreover, the 3.26% dividend yield isn't the highest on the stock market, but payouts should be rock steady amid the uncertainties.

Investment thesis

The \$29.96 billion electric & gas utility company has 10 affiliates engaged in electric and gas operations under its umbrella. These large operating subsidiaries serve 3,400,000 customers in Canada, the United States, and the Caribbean. Fortis takes pride in its leadership position in 17 jurisdictions where the utility assets are virtually 100% regulated.

Fortis's strategy of long-term, profitable growth translates to superior returns. In 20.02 years, the total return is a respectable 973.61% (12.59% CAGR). Only 7% of its total assets are non-infrastructure investments. The balance of 93% supports the core energy delivery business or the transmission and distribution of electricity and natural gas.

Management promises to power ahead by seeking additional opportunities to diversify its asset base and grow Fortis within its existing franchise territories and beyond. A new capital plan (2022 to 2026) worth \$20 billion is in place to support its low-risk rate base growth of 6% through the five-year period. Fortis's rate should be \$41.6 billion by the end of 2026.

Q1 2022 highlights

In Q1 2022 (quarter ended March 31, 2022), adjusted net earnings increased 3% to \$369 million versus Q1 2021. David Hutchens, Fortis's president and CEO, said, "Our first-quarter results reflect the stability of our transmission and distribution business."

The utility company's \$4.0 billion annual capital plan remains on track with total investment during the quarter reaching around \$1 billion. According to management, its long-term outlook remains unchanged. The successful implementation of the capital plan and the balance and strength of the utility business plus growth opportunities should Fortis enhance shareholder value further.

Fortis is also executing the transition to a clean energy future, as it targets to reduce greenhouse gas (GHG) emissions by 75% by 2035. Once it achieves 99% of the goal, expect the assets to focus more on energy delivery and renewable, carbon-free generation. The ultimate objective is to decarbonize over the long term, while preserving customer reliability and affordability.

Meanwhile, the global supply chain constraints, energy price volatility, and surging inflation are potential concerns for Fortis.

A rare asset

Fortis believes the new capital plan is highly executable and that the capital structure should remain consistent over its five-year outlook. The company intends to fund the capital plan with cash from operations and debt at regulated utilities.

The good news to investors is the commitment to raise dividends by an average of 6% annually through 2025. Fortis is indeed a rare asset for its low-volatility and growing dividends.

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Date

2025/08/29

Date Created

2022/06/08

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