Create $200 in Passive Income Every Quarter From 1 Defensive Stock

Description

The Bank of Canada's efforts to slow inflation through aggressive rate hikes is working. After the 0.25% increase this month, the central bank will take a conditional pause and observe if inflation will indeed decline significantly in the coming months.

Meanwhile, investors remain fearful of a market sell-off as a recession usually follows a period of relatively high inflation. With more risks on the horizon, stock selection matters in 2023. **Fortis** (TSX:FTS) in the utility sector is a safe place to place money because of its defensive characteristics.

Besides having nearly 100% regulated assets, the utility stock is a consistent dividend grower. The $26.8 billion regulated gas and electric utility company has raised its dividends for 49 consecutive years and is on track to becoming the **TSX's** second dividend king after **Canadian Utilities**.

An investment of less than $20,000 in Fortis can generate $200 in rock-steady passive income streams every quarter.

Quarterly passive income

As of this writing, Fortis trades at $55 per share and pays a 4.07% dividend. The table below shows how you can earn $200 every quarter from the defensive asset. It assumes a $19,690 investment (equivalent to 358 shares) and that the share price and dividend yield remain constant.

Company	Price	No. of Shares	Dividend per Share	Total Payout	Frequency
FTS	$55	358	$2.24	$801.38	Quarterly

With the $801.38 total payout, your investment will effectively generate $200.35 in an absolute amount every quarter. Assuming you intend to hold Fortis for 10 years, not touch the dividends and keep reinvesting them, your money will compound to $29,519.59. Your profit or dividend income for the entire period is $9,829.59.

Dividend growth guidance

The sample computation assumes a constant share price and dividend yield. However, in reality, both are variable figures or are subject to change. Fortis isn't immune from market headwinds so expect the stock price to fluctuate. Regarding the dividend payout, management has an average annual dividend growth guidance of 4% to 6% until 2027. Thus, expect the payout to increase annually starting in 2023.

Fortis has a new $22.3 billion capital plan (average $4.4 billion annually) from 2023 to 2027. According to management, the five-year plan supports its low-risk rate of growth target. From $34 billion in 2022, the rate base should grow at a compound annual growth rate (CAGR) of 6.2% to $46.1 billion by year-end 2027.

David Hutchens, President and CEO of Fortis, said the new capital plan is the largest ever for the company. He adds that Fortis should produce superior North American utility returns over the long run, alongside its regulated growth strategy and long-term dividend growth guidance.

Durable cash flows and dividends

Investors must be more defensive in 2023 if the door to more rate hikes remains open due to stubborn inflation. Your best safety nets are companies with defensive characteristics, including generating durable cash flows and sustaining dividend payments.

Fortis is a no-brainer buy for its bond-like features and low-volatility profile. You can take comfort in its CEO's assurance that the utility stock's low-risk organic growth strategy remains fundamental during these volatile macroeconomic times.

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