5 Things to Know About Fortis Stock

Description

Fortis (TSX:FTS) is a beloved Canadian dividend stock. It isn't a flashy or exciting stock or business. It operates 10 regulated energy transmission and distribution utility businesses across Canada, the U.S., and the Caribbean.

People need natural gas and electricity to heat and power their homes and businesses. It is up to Fortis to deliver these services reliably and safely. In return, it collects a steady fare of regulated income that it tends to return to shareholders.

If you like the idea of low-risk, passive-income returns, Fortis is the stock for you. However, before investing, here are five things you might want to know about this stock.

Lower capital upside but lower risk

Firstly, investors need to know that Fortis will not provide very high *capital* returns. Over the past 10 years, its stock is up only 61%. That was only a 4.86% compounded annual return. That essentially matched the **TSX Composite Index** over that same time frame.

Fortis is a low-beta stock. This means it delivered those returns with lower volatility than the **TSX Index** . So, if you want capital returns like the TSX but delivered in a more linear fashion, Fortis is a good stock to own.

The dividend makes a big difference

While Fortis stock has delivered market-mirroring returns, its *dividends* make the difference. It has increased its dividend consecutively for 49 years. If it increases its dividend in 2023 (which is likely), it will enter an elite group of dividend growth stocks call Dividend Kings.

Fortis has increased its dividend by a 6.8% compound annual growth rate (CAGR) since 2013. Today, it pays a $0.5650 quarterly dividend. That is 88% larger than it was in 2013. Add Fortis's dividend to its

10-year total returns, and they are closer to 112% (or 7.8% compounded annually).

Predictable growth ahead

Fortis is working out a new $22.3 billion capital plan. This spend will be spread evenly over the next five year at about $4.3 billion a year. 83% of this will be spent on smaller, more flexible projects. Most projects are focused on expanding the electrical grid (building out transmission lines), metering infrastructure, distribution projects, and renewable investments.

These are all low-risk investments. Fortis has a solid track record of effectively executing its capital plans. It anticipates that these investments could increase its rate base from $34 billion to $46 billion by the end of the cycle. Management hopes it will deliver a predictable 6.2% CAGR.

A safe dividend-payout ratio

Right now, Fortis's dividend-payout ratio is 81%. That means that its current dividend only consumes 81% of its annual net earnings per share. This suggests that it can safely pay its dividend and still re-invest in growth.

Given that the economic forecast has weakened, management has lowered its dividend-growth forecast for 2023 to only 4-6% (from 6%). While that is below its historic rate, it does ensure the long-term sustainability of Fortis balance sheet and its dividend. This appears to be a smart move by management, as it can always increase its dividend-growth rate later if things go better than expected.

Fortis is an anchor stock

Ultimately, Fortis is a stock to hold as a hedge against volatility in your overall portfolio. You don't hold this for big returns. You keep it in your portfolio as an anchor to protect an element of your wealth.

After a decline from last year, Fortis stock pays a decent 4.1% dividend yield, and it trades at a fair valuation. For low-risk, market-leading returns, Fortis is a solid income stock that investors can own and sleep well at night.

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