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Payouts put Fortis in a class of its own

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Gas and electricity utility has raised its dividend annually for four decades

Investors should have a soft spot for the shares of Fortis Inc., Canada's reigning dividend champion.

The company, the largest investor-owned electric and gas utility in the country, has achieved the head-turning feat of raising its dividend annually for 40 years running. It's a feat no other company has managed and some analysts believe the four-decade streak isn't anywhere near ending.

"It's a great quality company that provides steady dividends and lots of potential to increase those dividends over time," says Cory O'Krainetz, an analyst at Odlum Brown Ltd. in Vancouver who is bullish on the stock.

In a recent note to clients, he called the company "an ideal choice for dividend investors" and dubbed it the country's "dividend aristocrat" for its lengthy record of increasing the payout.

The current dividend payout works out to a respectable yield of 3.7 per cent. The shares offer about twice the yield of a 10-year government of Canada bond, another investment that appeals to those seeking relatively secure income.

The dividend, however, is even more attractive on an after-tax basis because of federal tax credits, and while dividends are declared at the whim of the company – meaning they can go down as well as up – investors are likely to see further growth in the Fortis payout.

Mr. O'Krainetz estimates that Fortis has about $6-billion in capital expenditures that it can put in place over the next four years.

As a regulated utility distributing natural gas and electricity, Fortis earns a return calculated on how much money it invests in power lines, gas meters, and other assets.

Based on the capital projects in the pipeline, the company could expand per-share profit by about 5 per cent to 8 per cent annually, and dividends by about the same amount.

That means current buyers get a starter yield of 3.7 per cent and plenty of upside in the payout if the company's fortunes continue to improve.

Given its prospects, "we think Fortis is pretty good value," Mr. O'Krainetz says.

An added plus that makes Fortis a safer bet than some other utility companies is that it doesn't focus on the ownership of power plants, the volatile end of the business that is exposed to fluctuations in electricity and natural gas prices.

Investors could also benefit from capital gains in the stock price. Mr. O'Krainetz has a 12-month target price of $37 a share.

In a report last month, Industrial Alliance Securities Inc. was even more bullish, saying the stock – which now trades between $33 and $34 – had the potential to reach $40.

To be sure, not everyone is so optimistic. ***Veritas Investment Research*** rates Fortis a "sell" but would switch to the "buy" side if the stock fell to $31 a share or lower.

Veritas said in a recent analysis of the company that, while the stock has appeal for income-focused investors, there are some headwinds, including the possibility of lower regulated returns.

"Our intrinsic value estimate is $33.35 per share, suggesting the stock is fully valued at its current trading price," ***Veritas*** says.

But Mr. O'Krainetz disagrees on viewing Fortis as a stock that investors should buy only on a dip. "We think it's pretty good value here," he says.