This utility is the Swiss train of dividend stocks

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Fall is my favourite time of year. Breathing the crisp air and watching the leaves change colour is nice, but it's the annual dividend increase from Fortis Inc. that really warms my greedy little heart.

In an uncertain world, Fortis (FTS-T -0.41%decrease) has been a model of predictability. With the St. John's-based gas and electric utility having unveiled a new five-year capital spending plan this week, let's dig into what makes Fortis a core holding for dividend investors.

A dividend that keeps on growing

In my model Yield Hog Dividend Growth Portfolio, I focus on companies that consistently raise their payouts to shareholders. Fortis has excelled in that regard: This past week, it announced a 4.1-per-cent hike to $2.56 a share on an annualized basis, which will mark 52 consecutive years of increases.

Including the latest dividend bump, the shares now yield about 3.5 per cent. That's good, but it gets better: Fortis also extended its dividend growth guidance of 4 to 6 per cent annually by an additional year, through 2030. Dividend increases aren't official until the board signs off, but I fully expect Fortis to deliver given its solid track record and robust capital growth plan, which I'll discuss in a moment.

A share price that follows the dividend higher

Dividends can't grow in a vacuum. They need to be supported by rising earnings – out of which dividends are paid – or the payout ratio will become unsustainable and the dividend will eventually get cut. That's precisely what happened with companies such as Algonquin Power & Utilities Corp. (AQN-T +0.23%increase) and BCE Inc. (BCE-T +1.60%increase).

But even after more than half a century of dividend increases, Fortis's payout ratio has remained manageable, averaging 72 per cent over the past 10 years. The reason the payout ratio hasn't ballooned is simple: Fortis's earnings have kept pace with the dividend.

Reflecting its growing earnings, Fortis's stock price has also risen more or less steadily, interrupted by occasional setbacks when interest rates have spiked. Including both dividends and share price gains, the stock has delivered an annualized total return of 9.7

per cent for the 20 years through Nov. 6. Assuming all dividends were reinvested, a $10,000 initial investment would have grown to nearly $64,000.

A low-risk business that continues to grow

Fortis operates nine regulated utilities in Canada, the U.S. and the Caribbean that collectively serve 3.5 million electricity and natural gas customers. This points to another of Fortis's strengths: It delivers essential products that everyone needs, in good economic times and bad.

Because utilities operate as regulated monopolies, they can't just charge whatever rates the market will bear. Instead, their rates are set by public utilities commissions that balance the need to protect customers from excessive charges with allowing utilities to earn a reasonable return on their investment.

This arrangement works in Fortis's favour. One of the key drivers of a utility's earnings is its rate base, which is the value of assets on which it is permitted to earn a regulated return. In its latest capital outlook, Fortis said it plans to invest $28.8-billion from 2026-30 to increase capacity at its utilities, improve reliability, expand its transmission assets and connect new power sources to the grid. The investments are expected to lift Fortis's rate base by 7 per cent annually, supporting both earnings and dividend growth.

Fortis should have no trouble meeting its targets, analysts say.

"We view the capital plan as relatively conservative, low risk and highly executable, which is what investors should expect from a utility," said Brent Stadler, an analyst with Desjardins Capital Markets, in a research note. He has a buy rating and a 12-month price target of $79 on the shares, which closed Friday at $71.96.

Opportunities for more

Fortis's growth projections could prove to be conservative, analysts say. Its rate base could be augmented by as much as $3-billion of additional investments related to data centres and liquefied natural gas projects, for example. What's more, the company likely won't have to tap the equity markets to fund its base capital program, apart from shares issued under its dividend reinvestment plan. Most of the funding will come from cash flow, supplemented by modest debt issuance, although Fortis does have a flexible at-the-market equity program of as much as $500-million it could use if the need arises.

"We believe Fortis offers a compelling combination of rate base growth, balance sheet discipline, and upside from emerging load-driven [electricity] investment opportunities across its footprint," said Theo Genzebu, associate analyst with Raymond James, in a note. He has an "outperform" rating on the stock and a price target of $75.50.

A knack for exceeding expectations

Fortis's third-quarter results, released along with its capital plan, marked the 13th consecutive quarter that its earnings per share have topped estimates. There are no guarantees the streak will continue, but with energy demand only rising, it's a safe bet that Fortis's earnings and dividends will be growing for many years to come.

Remember to do your own due diligence before investing in any security and be sure to maintain a diversified portfolio to control your risk.

Disclosure: The author owns shares of Fortis personally and in his model Yield Hog Dividend Growth Portfolio.

E-mail your questions to jheinzl@globeandmail.com. I'm not able to respond personally to e-mails but I choose certain questions to answer in my column.