



## Fortis Inc.'s Q3 Earnings Exceeded Expectations, Should You Buy Now?

### Description

**Fortis Inc.** ([TSX: FTS](#)), one of the leading electric and gas utilities companies in North America, has just announced third-quarter earnings and the company's stock has responded by making a slight move to the upside. Let's take a look at three of the most important takeaways from the report to determine if we should be buying into this rally right now or hold off on a new investment for the time being.

#### 1. Earnings per share and revenue exceeded expectations

Before the market opened on November 7, Fortis released its third-quarter report and the results exceeded expectations by a wide margin. Here's a chart of the reported results versus what analysts had expected and its results in the year-ago period.

| Metric             | Reported       | Expected      | Year-Ago Period |
|--------------------|----------------|---------------|-----------------|
| Earnings Per Share | \$0.33         | \$0.26        | \$0.23          |
| Revenue            | \$1.20 billion | \$873 million | \$915 million   |

Source: *Financial Times*

Earnings per share increased 43.5% and revenue increased 30.8% year-over-year, and Fortis noted that its strong revenue growth was driven by electricity sales growth and its recent acquisition of UNS Energy.

#### 2. The UNS Energy acquisition closed

On August 15, Fortis announced that it had acquired UNS Energy, one of the largest electricity and natural gas suppliers in Arizona, for approximately US\$4.5 billion and this acquisition closed during the quarter. By purchasing UNS Energy, Fortis added about 685,000 customers and grew its presence in the United States' energy industry significantly. This acquisition has already impacted revenues positively and it will be a key factor in Fortis' earnings per share growth going forward.

### 3. Operating profit rose, but the margin took a hit

For the quarter, operating profit increased 27% to \$226 million, but the operating margin took a slight hit, contracting 60 basis points to 18.9%. The contraction of the operating margin can be attributed to higher natural gas prices, increased purchases of fuel, power, and natural gas resources due to increased demand, and several one-time charges related to the acquisition of UNS Energy.

The operating margin will likely expand in future quarters, as the acquisition of UNS Energy has closed and Fortis is always hedging itself to offset the rise and fall of commodity costs. Also, UNS Energy's operating margin came in at an impressive 22.5% in the second quarter, so its operational efficiency will be beneficial to Fortis' margins going forward.

### Does Fortis represent a long-term opportunity today?

Fortis is one of North America's leading providers of electricity and natural gas, and the growing demand for its services led to earnings per share rising 43.5% and revenue increasing 30.8% in the third quarter. The company's stock has reacted to the release by rising by a little more than 0.5% in the trading session, but I think there is still plenty of room to the upside, as it still trades at just 18.9 times forward earnings estimates and has a bountiful 3.4% dividend yield.

#### CATEGORY

1. Energy Stocks
2. Investing

#### TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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