



3 Reasons Why Fortis Inc. Should Be Added to Your Portfolio Today

Description

Fortis Inc. ([TSX:FTS](#)), one of the largest electric and gas utilities companies in North America, has watched its stock underperform the overall market in 2015, but it has the potential to be one of the top performers over the next several years. Let's take a look at three of the top reasons why you should consider investing today.

1. Strong earnings growth supports a higher share price

On February 19, Fortis released very strong fourth-quarter earnings results, but its stock has responded by falling about 2% in the weeks since. Here's a breakdown of eight of the most important statistics from the report compared to the year-ago period:

1. Adjusted net earnings increased 13% to \$113 million
2. Adjusted earnings per share decreased 6.4% to \$0.44
3. Total revenues increased 37.8% to \$1.69 billion
4. Revenue increased 276.4% to \$621 million in its U.S. Regulated Electric & Gas Utilities segment
5. Revenue increased 4.1% to \$488 million in its Canadian Regulated Electric Utilities segment
6. Revenue decreased 3.1% to \$432 million in its Canadian Regulated Gas Utilities segment
7. Revenue increased 9.1% to \$84 million in its Caribbean Regulated Electric Utilities segment
8. Cash provided by operating activities increased 43.3% to \$334 million

Fortis' double-digit percentage increase in net earnings and revenue can both be attributed to its \$4.5 billion acquisition of UNS Energy, which closed in August 2014 and contributed \$435 million in revenue and \$23 million in net earnings during the quarter. The company will likely be able to generate significant cost synergies from this acquisition going forward, which could lead to a record financial performance in fiscal 2015.

2. Inexpensive current and forward valuations

At today's levels, Fortis' stock trades at 21.3 times fiscal 2014's adjusted earnings per share of \$1.81, just 19.1 times fiscal 2015's estimated earnings per share of \$2.02, and only 18 times fiscal 2016's estimated earnings per share of \$2.14. I think the stock could consistently command a fair multiple of

at least 22, which would place its shares upwards of \$44 by the conclusion of fiscal 2015, and upwards of \$47 by the conclusion of fiscal 2016, representing upside of more than 14% and 21% respectively from current levels.

3. A management team dedicated to maximizing shareholder value

Fortis pays a quarterly dividend of \$0.34 per share, or \$1.36 per share annually, which gives its stock a bountiful 3.5% yield at current levels. The company has also raised its annual dividend payment for 42 consecutive years, the record for a public corporation in Canada, and its consistent free cash flow generation could allow this streak to continue for decades.

Should you be a buyer of Fortis today?

Fortis is one of North America's largest utilities companies, and its stock represents one of the top investment opportunities in the market today because it has the earnings growth to support a higher share price, because it trades at inexpensive current and forward valuations, and because it has shown a deep dedication to maximizing shareholder returns through the payment of dividends. All long-term investors should take a closer look at Fortis today and strongly consider initiating positions.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

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1. TSX:FTS (Fortis Inc.)

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