

Is Fortis Inc. the Top Utility Stock in the Market Today?

Description

Fortis Inc. ([TSX:FTS](#)), one of the largest electric and gas utilities companies in North America, announced better-than-expected first-quarter earnings before the market opened on May 5 and its stock has responded by falling over 1.5% in the trading sessions since. Let's take a closer look at the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity.

The better-than-expected first-quarter results

Here's a summary of Fortis' first-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$0.65	\$0.61	\$0.68
Revenue	\$1.92 billion	\$1.89 billion	\$1.46 billion

Source: *Financial Times*

Fortis' adjusted earnings per share decreased 4.4% and its revenue increased 31.6% compared with the first quarter of fiscal 2014, as its adjusted net income increased 22.6% to \$179 million. These results can largely be attributed to the company's \$4.5 billion acquisition of UNS Energy, which was completed in August 2014 and contributed \$435 million in revenue in the first quarter, or 94.6% of its total revenue growth, but also had a \$0.13 dilutive impact on earnings per share.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Revenue increased 167.3% to \$727 million in its U.S. Regulated Electric & Gas Utilities segment (including UNS Energy)
2. Revenue increased 0.6% to \$1.05 billion in its Canadian Regulated Electric & Gas Utilities segment
3. Revenue increased 5.4% to \$78 million in its Caribbean Regulated Electric Utilities segment
4. Cash flow from operating activities increased 69.8% to \$450 million
5. Ended the quarter with \$299 million in cash and cash equivalents, an increase of 30% from the beginning of the quarter
6. Weighted average number of common shares outstanding increased 29.5% to 276.7 million

Should you be a buyer of Fortis today?

It was a very strong first quarter for Fortis, so I think its stock has reacted incorrectly by moving lower. With this being said, I think the post-earnings decline represents nothing more than a long-term buying opportunity because the stock trades at inexpensive valuations and has a high dividend yield.

First, Fortis' stock trades at just 19.4 times fiscal 2015's estimated earnings per share of \$1.98 and only 18 times fiscal 2016's estimated earnings per share of \$2.14, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.5. I think the company's stock could consistently command a fair multiple of at least 20.5, which would place its shares upwards of \$40.50 by the conclusion of fiscal 2015 and upwards of \$43.75 by the conclusion of fiscal 2016, representing upside of more than 5% and 13%, respectively, from current levels.

Second, Fortis pays an annual dividend of \$1.36 per share, which gives its stock a bountiful 3.5% yield at today's levels. The company has also increased its annual dividend payment for 42 consecutive years, the record for a public corporation in Canada, and I think this makes it the top dividend-growth play in the market today.

With all of the information above in mind, I think Fortis represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider making it a core holding.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/10/01

Date Created

2015/05/08

Author

jsolitro

default watermark