3 Reasons Why Fortis Inc. Should Be Atop Your Buy List

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, falling more than 2% as the TSX Composite Index has risen over 3.5%, but it has the potential to be one of the top performers from this point forward. Let's take a look at three of the primary reasons why this could happen and why you should consider initiating a long-term position today.

1. Strong first-quarter earnings to support a short-term rally

Fortis announced better-than-expected first-quarter earnings results before the market opened on May 5, but its stock has responded by falling over 2.5% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the report compared with the year-ago period:

1. Adjusted net income increased 22.6% to $179 million
2. Adjusted earnings per share decreased 4.4% to $0.65, surpassing analysts' expectations of $0.61
3. Revenue increased 31.6% to $1.92 billion, surpassing analysts' expectations of $1.89 billion
4. Revenue increased 167.3% to $727 million in its U.S. Regulated Electric & Gas Utilities segment (including UNS Energy)
5. Revenue increased 0.6% to $1.05 billion in its Canadian Regulated Electric & Gas Utilities segment
6. Revenue increased 5.4% to $78 million in its Caribbean Regulated Electric Utilities segment
7. Cash flow from operating activities increased 69.8% to $450 million
8. Ended the quarter with $299 million in cash and cash equivalents, and increase of 30% from the beginning of the quarter
9. Weighted average number of common shares outstanding increased 29.5% to 276.7 million
10. Ended the quarter with $299 million in cash and cash equivalents, an increase of 30% from the beginning of the quarter

Fortis’ very strong first-quarter performance can be largely attributed to its $4.5 billion acquisition of UNS Energy in August of 2014, which contributed $435 million in revenue, or 94.6% of its total revenue growth for the quarter, but also had a $0.13 dilutive impact on earnings per share.

2. The stock trades at inexpensive forward valuations

At current levels, Fortis’ stock trades at just 18.7 times fiscal 2015’s estimated earnings per share of $2.04 and only 17.7 times fiscal 2016’s estimated earnings per share of $2.16, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.5.

I think the stock could consistently command a fair multiple of at least 20.5, which would place its shares upwards of $41.75 by the conclusion of fiscal 2015 and upwards of $44.25 by the conclusion of fiscal 2016, representing upside of more than 9% and 15%, respectively, from today’s levels.

3. A record streak of dividend increases

Fortis pays a quarterly dividend of $0.34 per share, or $1.36 per share annually, giving its stock a 3.6% yield at current levels. The company has also increased its annual dividend payment for 42 consecutive years, the record for a public corporation in Canada, and its increased amount of free cash flow could allow this streak to continue for another 42 years.

Is Fortis the missing piece to your portfolio?

I think Fortis represents one of the best short-term and long-term investment opportunities in the market today. It has the support of strong first-quarter earnings results, its stock trades at inexpensive forward valuations, and it has a 3.6% dividend yield with the longest active streak of annual increases in Canada. Foolish investors should take a closer look and strongly consider making Fortis a core holding today.

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1. TSX:FTS (Fortis Inc.)

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Date
2025/10/01
Date Created

2015/05/25
Author
jsolitro