

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

Description

Fortis Inc. ([TSX:FTS](#)), one of North America's largest electric and gas utilities companies, has watched its stock fall over 9.5% in 2015, including a decline of about 8% over the last two weeks as a result of the downturn in the market, but it has the potential to rebound and head significantly higher in both the short and long term. Let's take a look at three reasons why this could happen and why you should consider making it a core holding today.

1. Its strong financial performance could support a quick rebound

On July 31, Fortis released very strong earnings results for its three and six-month periods ending on June 30, 2015, and they could support a quick rebound in its shares. Here's a breakdown of eight of the most notable statistics from the first half of fiscal 2015 compared with the first half of fiscal 2014:

1. Adjusted net income increased 42.5% to \$302 million
2. Adjusted earnings per share increased 10.1% to \$1.09
3. Total revenue increased 37.5% to \$3.45 billion
4. Revenue increased 206.1% to \$1.41 billion in its U.S. regulated utilities segment
5. Revenue decreased 1.8% to \$1.73 billion in its Canadian regulated utilities segment
6. Operating income increased 42.9% to \$723 million
7. Cash flow from operating activities increased 56.7% to \$918 million
8. Ended the quarter with \$797 million in cash and cash equivalents, an increase of 166.6% from the beginning of the quarter

The company's very strong revenue growth can be largely attributed to its \$2.5 billion acquisition of UNS Energy, which was completed in August 2014 and contributed \$929 million of revenue in the first half, but also had a \$0.03 dilutive impact on earnings per share.

2. Its stock trades at inexpensive forward valuations

At current levels, Fortis's stock trades at just 17.4 times fiscal 2015's estimated earnings per share of \$2.02 and only 16.3 times fiscal 2016's estimated earnings per share of \$2.15, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.4.

I think the stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of \$40 by the conclusion of fiscal 2015 and around \$43 by the conclusion of fiscal 2016, representing upside of more than 13% and 22%, respectively, from today's levels.

3. It has a 3.9% dividend yield with a record streak of annual increases

Fortis pays a quarterly dividend of \$0.34 per share, or \$1.36 per share annually, which gives its stock a 3.9% 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 the foreseeable future.

Should you buy Fortis today?

I think Fortis represents one of the best long-term investment opportunities in the market. Its strong financial performance in the first half of the year could support a quick rebound, its stock trades at inexpensive forward valuations, and it has a 3.9% dividend yield with a record streak of annual increases, which helps minimize risk in today's volatile times. All Foolish investors should strongly consider making it a core holding.

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1. TSX:FTS (Fortis Inc.)

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