Fortis Inc.'s Adjusted Q3 Profit Rises 116.4%: Is Now the Time to Buy?

Description

Fortis Inc. (TSX:FTS), one of the largest electric and gas utilities companies in North America, announced strong third-quarter earnings results before the market opened on November 6, but its stock responded by falling about 1% in the day's trading session. Let's take a closer look at the results to determine if this weakness represents a long-term buying opportunity or if there is an underlying factor that could hold the stock back going forward.

default watermark

The acquisition of UNS Energy leads to another great quarter

Here's a summary of Fortis's third-quarter earnings results compared with its results in the same period a year ago.

Metric	Q3 2015	Q3 2014
Adjusted Earnings Per Share	$0.52	$0.31
Revenue	$1.57 billion	$1.20 billion

Source: Fortis Inc.

Fortis's adjusted earnings per share increased 67.7% and its revenue increased 30.8% compared with the third quarter of fiscal 2014. The company noted that these very strong results were largely due to its acquisition of UNS Energy, which was completed on August 15, 2014 and contributed $623 million in revenue and $97 million in earnings in the third quarter.

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

1. Adjusted net income increased 116.4% to $145 million
2. Revenue increased 93.4% to $816 million in its U.S. Regulated Electric & Gas Utilities segment (including UNS Energy)
3. Revenue decreased 2.4% to $600 million in its Canadian Regulated Electric & Gas Utilities segment

4. Revenue increased 2.4% to $87 million in its Caribbean Regulated Electric Utilities segment
5. Revenue decreased 30.9% to $47 million in its Non-Utility segment
6. Revenue increased 262.5% to $29 million in its Fortis Generation segment
7. Operating income increased 57.1% to $355 million
8. Cash flow from operating activities increased 477.4% to $358 million

Should you buy Fortis shares today?

The third quarter was a great success for Fortis, so I do not think the market reacted correctly by sending its stock lower. With this being said, I think long-term investors should consider using this weakness as a buying opportunity, because the stock now trades at even more attractive forward valuations and because it is one of the top dividend stocks in the market.

First, Fortis's stock now trades at just 18.6 times fiscal 2015's estimated earnings per share of $2.02 and only 17.5 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 20.8.

With its five-year average multiple and 12.6% long-term growth rate in mind, I think Fortis's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of $43 by the conclusion of fiscal 2016, representing upside of more than 14% from current levels, and this does not include reinvested dividends.

default watermark

Second, Fortis pays a quarterly dividend of $0.375 per share, or $1.50 per share annually, which gives its stock a very generous 4% yield. It is also very important to note that it has raised its dividend for 42 consecutive years, the record for a public corporation in Canada, and it is targeting an annual dividend-growth rate of approximately 6% through 2020, making it the top dividend-growth play in the market today.

With all of the information above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in Fortis to begin scaling in to long-term positions.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/09/30
Date Created
2015/11/09
Author
jsolitro

default watermark

default watermark