4 Reasons Why Fortis Inc. Is Atop My Buy List

Description

Fortis Inc. (TSX:FTS), one of North America's largest electric and gas utilities companies, has watched its stock outperform the overall market in 2016, rising more than 6% as the S&P/TSX Composite Index has returned just over 4%, and I think it will continue to do so going forward for four primary reasons. Let's take a closer look at these reasons to see if you agree and if you should buy the stock today.

1. It continues to deliver strong earnings results

On February 18, Fortis announced very strong earnings results for its fiscal year ended on December 31, 2015, and its stock has responded accordingly by rising over 5% in the weeks since. Here's a breakdown of eight of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net earnings increased 49.5% to $589 million
2. Adjusted earnings per share increased 20.6% to $2.11
3. Total revenue increased 24.6% to $6.73 billion
4. Operating income increased 39.7% to $1.43 billion
5. Cash flow from operating activities increased 70.4% to $1.67 billion
6. Dividends paid increased 9.4% to $1.40 per share
7. Adjusted dividend payout ratio improved 670 basis points to 66.4%
8. Weighted-average number of common shares outstanding increased 23.5% to 278.6 million

2. It's undervalued

At today's levels, Fortis's stock trades at just 18.4 times fiscal 2016's estimated earnings per share of $2.16 and only 16.2 times fiscal 2017's estimated earnings per share of $2.46, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.3 and its industry average multiple of 20.7.

With the multiples above and its estimated 13.9% long-term earnings growth rate in mind, I think the company'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 and upwards of $49 by the conclusion of fiscal 2017, representing upside of more than 8% and 23%, respectively, from today's levels.

3. It has one of the best dividends in the market

Fortis pays a quarterly dividend of $0.375 per share, or $1.50 per share annually, which gives its stock a high and safe yield of about 3.8%.

Investors must also make two notes.

First, Fortis has raised its annual dividend payment for 43 consecutive years, tying it with one other company for the longest active streak for a public corporation in Canada, and its 10.3% hike in September 2015 has it on pace for 2016 to mark the 44th consecutive year with an increase.

Second, the company has an annual dividend-per-common-share growth target of 6% through 2020, and I think its strong financial performance will allow it to extend this target as 2020 nears.

4. It continues to make strategic acquisitions to drive growth

On February 9, Fortis announced that it would be acquiring **ITC Holdings Corp.** for US$11.3 billion, and it expects this transaction to yield the following benefits upon closing:

1. Fortis will become the largest independent electric transmission utility in the United States
2. Fortis will become one of the top 15 North American public utilities ranked by enterprise value
3. The transaction will provide approximately 5% earnings-per-common-share accretion in the first full year
4. The transaction will support its aforementioned 6% annual dividend-per-common-share growth target

Is now the time for you to buy Fortis?

Fortis represents one of the best long-term investment opportunities in the market today, so add it to your buy list and strongly consider beginning to scale in to a position over the next couple of weeks.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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Date
2025/07/08

Date Created
2016/03/22
Author
jsolitro