



Fortis Inc.'s Q1 Profits Rise 6.1%, Revenues Fall 8.3%: What Should You Do Now?

Description

Fortis Inc. ([TSX:FTS](#)), one of North America's largest electric and gas utilities companies, announced its first-quarter earnings results this morning, and its stock has responded by falling about 1%. Let's break down the results to determine if we should use this weakness as a long-term buying opportunity or if we should wait for an even better entry point in the trading sessions ahead.

A quarter of mixed growth

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

Metric	Q1 2016	Q1 2015
Adjusted Earnings Per Share	\$0.67	\$0.65
Revenue	\$1.76 billion	\$1.92 billion

Source: Fortis Inc.

Fortis's adjusted earnings per share increased 3.1% and its revenue decreased 8.3% compared with the first quarter of fiscal 2015. The company stated that its slight earnings-per-share growth could be attributed to a \$4 million contribution from its Waneta Expansion, which came online in April 2015, as well as increased production in Belize due to higher rainfall, the positive impact of foreign exchange from its U.S. operations, and the strong performance from its utilities in the Caribbean.

It also stated that its decline in revenue could be attributed to "the flow through in customer rates of lower energy supply costs at FortisBC Energy and Central Hudson, and a decrease in non-utility revenue due to the sale of commercial real estate and hotel assets in 2015," and that this was only partially offset by the positive impact of foreign exchange from its U.S. operations.

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

1. Adjusted net income increased 6.1% to \$190 million
2. Revenue decreased 5.2% to \$689 million in its U.S. Regulated Electric & Gas Utilities segment
3. Revenue decreased 6.7% to \$981 million in its Canadian Regulated Electric & Gas Utilities segment
4. Revenue decreased 3.8% to \$75 million in its Caribbean Regulated Electric Utilities segment
5. Revenue increased 300% to \$28 million in its Energy Infrastructure segment
6. Cash flow from operating activities increased 7.3% to \$483 million

Should you buy Fortis today?

It was a solid quarter overall for Fortis, but no statistic really stood out as impressive, so I think the post-earnings weakness in its stock is warranted. With this being said, I think the decline represents a great buying opportunity for the long term for three primary reasons.

First, it's inexpensive. Fortis's stock trades at just 18.5 times fiscal 2016's estimated earnings per share of \$2.16 and only 16.1 times fiscal 2017's estimated earnings per share of \$2.49, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.2 and the industry average multiple of 20.6. These multiples are also inexpensive given the company's estimated 11.5% long-term earnings growth rate.

Second, it has a great dividend. Fortis pays a quarterly dividend of \$0.375 per share, or \$1.50 per share annually, which gives its stock high and very safe yield of about 3.75%. Investors must also note that the company 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. Needless to say, Fortis is one of the best dividend-growth stocks in the market.

Third, Fortis's US\$11.3 billion acquisition of **ITC Holdings Corp.** is expected to close later this year, and in the earnings report, it stated that this transaction will increase its earnings growth rate, support its dividend-growth target of 6% annually through 2020, and provide further diversification to its utility portfolio. I think this acquisition was a very smart move by Fortis and that it will reap all of the benefits stated above and then some.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making Fortis a core holding.

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1. TSX:FTS (Fortis Inc.)

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Date

2025/07/08

Date Created

2016/05/03

Author

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