



Fortis Inc. Hits All-Time High: Is it Still a Buy?

Description

Fortis Inc. ([TSX:FTS](#)) was formed in 1987 and started with \$390 million in assets. It has grown to be one of the top 25 leading North American utilities with \$28 billion in assets today.

The business

Fortis has nine utility operations diversified across Canada, the U.S., and the Caribbean. Most notably, Fortis entered the U.S. market by acquiring Central Hudson for US\$1.5 billion in 2013 and UNS Energy for \$4.5 billion in 2014.

The strong U.S. dollar has only strengthened Fortis's business performance. Fortis now earns about a third of its operating earnings from the U.S.

Moreover, its assets are diversified across jurisdictions with 31% in UNS Energy, 30% in FortisBC, 14% in FortisAlberta, 11% in Central Hudson, 9% in eastern Canada (including Newfoundland Power, Maritime Electric, and FortisOntario), and 5% in the Caribbean.

Because 96% of its assets are regulated, of which 70% is electric and 26% is gas, Fortis's returns are predictable. Most of its allowed return on equity (ROE) in 2015 was 8-9%.

Strong execution

In 2015 Fortis successfully integrated UNS Energy in Arizona, executed its largest capital plan to date of \$2.2 billion, and completed the Waneta expansion project. These helped the utility increase its adjusted earnings per share (EPS) by 21% for the year.

In fact, Fortis's consistent track record of execution allowed the company to increase its dividend for 42 consecutive years. From 2005 to 2015, Fortis increased its annualized payout from \$0.59 to \$1.40 per share at a rate of 9% per year.

Its payout ratio was 66% in 2015, the lowest it has been in the past five years, supporting a safer dividend.

Going forward

Fortis plans to invest \$8.8 billion through 2020 and is on track to invest \$1.9 billion this year. Fortis forecasts the 2015 rate base of \$16.4 billion to grow to more than \$20 billion by 2020 at a compound annual growth rate (CAGR) of 4.5%.

The **ITC** acquisition is expected to close by the end of the year. After which, Fortis will generate about 60% of its regulated operating earnings from the U.S.

ITC is a premier regulated electric transmission utility that will be accretive to EPS in the first full year after close. ITC enhances Fortis's regulatory diversity with FERC, which "has been one of the most consistently supportive utility regulators, providing reasonable returns and equity ratios," as stated in Fortis's June presentation.

ITC has an allowed ROE of more than 11% and its rate-base growth through 2018 is expected to be at a CAGR of 7.5%.

With a capital plan, Fortis aims to hike its dividend by 6% each year through 2020.

Furthermore, Fortis has been approved to be listed on the New York Stock Exchange; the official listing will occur in the fall.

Is Fortis a buy?

Fortis is a leading North American utility with predictable growth and returns and an excellent long-term investment based on its track record of execution.

If you're looking for solid income, Fortis pays a safe dividend of 3.4%.

However, at \$43.70 per share, it trades at a multiple of 20.5, and the shares are fully valued based on its 10-year normal multiple.

That said, Fortis doesn't normally sell for cheap. Since 2010 Fortis occasionally dips to a "low" multiple of about 18.2, implying a price of about \$39.30 per share and a yield of 3.8%.

In rare instances, investors can catch Fortis at a 4% yield. Assuming Fortis raises its dividend by 6% later this year for a starting yield of 4%, interested investors can buy at \$39.75 per share.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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