Fortis Inc. Is 1 Step Closer to Completing an Acquisition

Description

Unlike other utility companies that are comfortable with organic growth, **Fortis Inc.** (TSX:FTS) has taken an acquisitive approach to expanding its operations. Historically, this has worked quite well for the company. However, the focus was predominately in Canada with multiple purchases expanding Fortis's exposure in Alberta and British Columbia.

Starting in 2011, Fortis crossed the border and bought assets in the United States. It tried to buy the Central Vermont Public Service (CVPS) for US$700 million, but it was outbid. It finally succeeded in its U.S. expansion by acquiring CH Energy Group, an energy company for upstate New York, for US$1.5 billion. At the time, this added 300,000 electric and 75,000 natural gas customers to Fortis's portfolio.

Growing bold, it acquired UNS Energy, an Arizona utility company, for US$2.5 billion at the end of 2013. This added an additional 650,000 customers of natural gas and electricity, primarily in Tuscon but also across much of southern Arizona.

These two deals now account for 36% of the company's operating earnings.

The big news last week was that Fortis gained key approval from the Oklahoma Corporation Commission to acquire **ITC Holdings Corp.** (NYSE:ITC)**.** If this acquisition goes through, it will be the largest Fortis has ever made.

In February Fortis reached an agreement to acquire ITC for US$11.3 billion. ITC is the largest independent electric transmission company in the United States. It operates 15,600 miles of high-voltage lines with transmission facilities in Illinois, Iowa, Kansas, Michigan, Missouri, and Oklahoma with a peak load exceeding 26,000 megawatts.

This will result in Fortis becoming one of the 15-largest North American public utilities by enterprise value. Shareholders of both companies voted and approved the acquisition in May and June, making it more likely to get completed.

Investors should be excited about the acquisition because it will provide 5% earnings accretion in the first full year following close. Further, the United States will account for 61% of its operating earnings, showing how far it has come since it first tried to buy CVPS back in 2011. This is significant because management wants to continue growing the dividend by at least 6% every year on average through 2020.

These acquisitions contribute to the predictable nature of Fortis, which many might call boring. Because 96% its assets are regulated, the company can predict its return on equity and keep risks low. This allows it to make moves such as the ITC Holdings acquisition.

The predictable nature of its business has also made it possible for the company to hike dividends.

And for 42 years, it has. Since last year the dividend has increased by 10% to $0.375 per share, per quarter. It currently yields 3.49%, which I believe to be a comfortable position. By the end of 2020 the dividend should be nearly $0.10 higher than it is today.

The only negative is that other investors recognize how stable earnings are and how predictable the dividend growth is. Like other dividend titans, this makes it a great place to park money, resulting in a premium cost for shares. While a cheaper price is always appreciated, I don't believe investors should miss out on the chance to own Fortis. Sometimes chasing a better price results in missing it entirely.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)

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Date
2025/08/23
Date Created
2016/08/22
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