



## Is it Time to Buy Fortis Inc. Stock?

### Description

**Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) shares have had a dip of about 5% from its recent and all-time high. Is it time to pick up some Fortis shares?

Just by looking at the share price, you can't really tell if a stock is reasonably valued or not. Even if a company seems to be fairly valued, it can still be a bad investment if it becomes less profitable over time.

However, I can reassure you that it's highly likely that Fortis will become more profitable over time and continue to grow its dividend, as it has for the last 43 years. The question is, Are shares are reasonably valued today?

### A stable business

Fortis is a leading North American utility with about 3.2 million electric and gas customers. Since its operations are largely regulated, its earnings and returns are more predictable than the average stock.

That's why it has one of the longest streaks of dividend growth on the Toronto Stock Exchange, and why its shares experience below-average volatility.

Fortis has 10 utility operations that span nine U.S. states, five Canadian provinces, and three Caribbean countries with a 2017 mid-year rate base of roughly \$26 billion.

It also has regulatory diversity with about 28% of its rate base regulated by FERC (i.e., the ITC rate base), 25% of its rate base in regulated U.S. electric and gas utilities, and 47% of its rate base in regulated Canadian and Caribbean utilities.

ITC, which Fortis acquired in late 2016, added further stability to the business by providing a strong platform in the electric transmission sector, which complemented Fortis's existing business.



### **Dividend and dividend growth**

At about \$44.50 per share, Fortis offers a safe yield of 3.6% with a payout ratio of about 67%. The utility aims to grow its rate base to about \$30 billion by 2021 by investing roughly \$13 billion this year through 2021. So, the management aims for average dividend growth of 6% per year through 2021.

### **Valuation and total returns potential**

Fortis shares tend to trade at a premium multiple because of the quality and stability of the business. The utility's long-term normal multiple is 19.6.

And it only traded at a "fair" multiple of about 15 in 2009 during the last recession. I suppose for Fortis, that's considered a discounted multiple because investors seem to be willing to pay up for the quality shares most of the time.

At about \$44.50 per share, Fortis trades at a multiple of about 18.6. So, the shares are nearly fully valued even after the recent dip.

A recent report at **Thomson Reuters** gives Fortis a 12-month target of \$49 per share, which represents ~10% upside potential, or, including the dividends, total returns potential of ~13.6%.

### **Should you buy Fortis now?**

In a normal market environment, Fortis shares will likely continue to trade at a premium multiple. So, if you're looking for stability and a safe, growing dividend, you can consider taking small bites as the shares experience dips. If you're looking for a better value for your money, see if you can grab some shares below \$43 per share.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:FTS (Fortis Inc.)

2. TSX:FTS (Fortis Inc.)

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