



Income Investors: Is Fortis Inc. a Buy After Entering a New Strategic Market?

Description

There is a new room for revenue and cash flow growth for **Fortis Inc.** ([TSX:FTS](#))([NYSE:FTS](#)) after the energy giant announced on November 22 that it has finally entered the Chinese liquefied natural gas (LNG) market by making its first ever shipment of LNG to the exponentially growing emerging market.

Fortis's LNG shipment to China in November was the first such export to ever originate from Canada, and the company intends to build on the success of the small pilot project to grow its Asian LNG presence.

While the departure of Fortis's LNG shipment was indeed a great milestone for Canada's liquefied natural gas export industry, the news is to be celebrated as a successful attempt by a Canadian energy player to directly ship an LNG container from a local port. Fortis is aiming to grab a potentially important piece of the pie in a very promising new growth market in the natural gas industry.

High-growth market

China has become the fastest-growing LNG export market in the world. The country's exponentially growing natural gas imports since 2015 are on pace to make it the second-largest LNG importer globally behind Japan.

In a December 6th posting, *LNG World Shipping* has already revised its expectations. It now expects Chinese LNG imports for 2017 to be ahead of those of Korea, albeit by a small margin. The industry information leader was previously expecting this to happen by 2018.

China intends to replace "dirty" coal with cleaner burning natural gas in a five-year plan ending 2020 to reduce air pollution after earlier suspending more than 100 coal-fired plants that were either approved or under construction.

Asian spot LNG prices are reported to have hit a three-year high this month after a 60% leap since early September, and Fortis is breaking into a seemingly lucrative international LNG market that could sustain higher product prices for the foreseeable future as the world increases its preference for cleaner energy sources.

Furthermore, with the forecasted continuous rise in global energy demand, according to a 2017 **Royal Dutch Shell** LNG outlook report, this demand growth may be met by 45% by natural gas by 2030, with Asia contributing the biggest LNG demand growth.

One critical factor that could enable Fortis to successfully grow exports to Asia is a recent development in the LNG market where trade is quickly changing to meet the rapidly evolving needs of buyers, including shorter-term and lower-volume contracts, allowing new suppliers to venture into this growing market at a slower pace, gradually growing its market presence.

New market, brand new challenges

There is an increasing threat of a rising bargaining power of Asian LNG buyers that could easily reduce the profitability of supply contracts across the whole industry and cut into Fortis's expected cash flows.

A recent example in focus is in the latest *Reuters* report. India, a very important and growing LNG importer, has successfully renegotiated its 20-year 2009 contract with leading LNG supplier **ExxonMobil** this year, with the supplier willing not only to lower the contract price, but also to foot the shipping bills.

This could be a bad precedent for the growing gas market, where supplier capacity is increasing with a series of new Australian and United States LNG liquefaction plants likely to introduce substantial volumes into the market going forward.

Another worry could be Russia's growing global dominance in the gas market after commissioning a big US\$20 billion project in the Arctic Circle. Russia could introduce more price competition in the global LNG market, as it can supply the product in high volumes and at significantly lower costs.

Fortis is dipping its foot into a global LNG market, where leaders Royal Dutch Shell, ExxonMobil, and **Chevron** are also vying for a bigger slice of the market, and the incumbents may change the rules of the game any time as they respond to new competitor threats.

Investor takeaway

Fortis is a [good income play](#), offering a 3.6% dividend yield, an +6% annual [dividend-growth promise](#) till 2022, and a chance for capital gains, as it expands its market reach.

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