Fortis (TSX:FTS) and Enbridge (TSX:ENB): Earnings Preview

Description

Second quarter 2020 earnings season has already been a difficult one. This is because the second quarter was a quarter of closed down businesses, reduced demand, and increased COVID-19 related costs. This has hit hard.

But utility companies **Fortis Inc**. (TSX:FTS)(NYSE:FTS) and **Enbridge Inc**. (TSX:ENB)(NYSE:ENB) will stand out. Fortis earnings and Enbridge earnings will stand out for their stability, defensiveness, and predictability. Fortis stock and Enbridge stock will continue to provide us with anchors for our portfolios.

Earnings preview: Fortis stock will hold firm

Fortis will report its second quarter next week, on July 30. The consensus EPS estimate is $0.56 compared to $0.54 in the second quarter last year. In a sea of deteriorating results, Fortis is still expected to see increasing earnings. Right off the bat, we know that Fortis stock is in a league of its own.

In the first quarter, Fortis' earnings came in below expectations due to a number of non-operational factors. The largest factor was a reduction in the market value of retirement assets. Operationally, Fortis performed well.

In Fortis' earnings result we can expect continued stability in its results. This is because regulated revenue makes up a large portion of Fortis' revenue, which leads to consistency. Fortis is also protected is its non-regulated revenue stream. Here, the company's revenue from commercial and industrial customers is complemented by its revenue from residential customers.

As a North American leader in the regulated gas and electric utility industry, Fortis is a solid defensive stock. In a well-diversified portfolio, we should have a mix of defensive, cyclical, and high growth stocks. Today, defensive stocks are even more valuable and essential.

The current economic climate is dismal. Defensive stocks can preserve your wealth. And Fortis is the perfect candidate for the defensive portion of your portfolio.

Earnings preview: Enbridge to benefit from increasingly stable oil prices

Enbridge will report its second quarter results on July 29. Oil prices bottomed out in the second quarter and have been on a steady upward trend ever since. This bodes well for Enbridge. Yet in the second quarter, oil prices were hitting lows. Therefore, second quarter EPS at Enbridge will probably be approximately 18% lower than last year; $0.55 versus $0.67.

However, there are many bright spots, including stabilizing oil prices. Distributable cash flow is increasing at Enbridge. The company is expecting distributable cash flow per share of $4.50 to $4.80 in 2020. So far, the first quarter came in above expectations, so we're off to a good start.

Enbridge's most significant segment is its liquids pipelines segment, representing 55% of EBITDA. Low-risk contracts make up a large portion of Enbridge's revenue in this segment. These contracts mean that Enbridge has minimal direct commodity exposure.

These take or pay and cost of service contracts offer high-quality, low risk characteristics. Furthermore, almost 90% of revenue in this segment comes from refiners and integrated producers. By definition, these companies have less commodity exposure. Clearly, these factors mitigate volatile oil prices.

Foolish bottom line

The earnings previews for Fortis and Enbridge point to strong results for these essential service companies. High predictability and stability are these defensive stocks' selling points. The second quarter will continue to demonstrate this.

And the value of Fortis stock and Enbridge stock will be on full display. At a time when we are continuing to receive an abundance of bad news, these defensive stocks will shine.

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