



# Fortis Inc. (FTS)

Updated August 4<sup>th</sup>, 2021 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$45	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Market Cap:</b>	\$21.5B
<b>Fair Value Price:</b>	\$44	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	08/18/21
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.8%	<b>Dividend Payment Date:</b>	09/01/21
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target</b>	\$58	<b>Years Of Dividend Growth<sup>1</sup>:</b>	47
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase<sup>1</sup>:</b>	5.9%

## Overview & Current Events

Fortis is Canada's largest investor-owned utility business with operations in Canada, the United States, and the Caribbean. It is cross-listed in Toronto and New York. Fortis trades with a current after-tax yield of 3.1% (about 3.6% before the 15% withholding tax applied by the Canadian government). Unless otherwise noted, US\$ is used in this research report. At the end of 2020, 63% of Fortis's assets are in the U.S., 34% are in Canada, and 3% are in the Caribbean; 82% of assets are regulated electric utility assets, 17% are regulated gas, and only 1% are non-regulated.

Fortis reported Q2 2021 results on 07/29/21. For the quarter, it reported adjusted net earnings of C\$253 million, down 8% compared to prior year's period of C\$274 million. Adjusted earnings-per-share (EPS) fell by 2% to C\$0.55 versus C\$0.56 a year ago. The lower EPS was primarily due to a lower USD versus the CAD. The utility is on track with its C\$3.8 billion capital plan this year with C\$1.7 billion invested in the first half of the year (H1).

The H1 results show a more normalized picture with adjusted EPS climbing 7% to C\$1.32 from C\$1.23 in H1 2020. We updated our 2021 EPS estimate to \$2.18 primary due to a stronger C\$ versus US\$.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.65	\$1.71	\$1.60	\$1.56	\$1.52	\$1.78	\$2.02	\$1.89	\$1.92	\$2.02	<b>\$2.18</b>	<b>\$2.92</b>
<b>DPS</b>	\$1.17	\$1.20	\$1.20	\$1.16	\$1.09	\$1.15	\$1.25	\$1.33	\$1.38	\$1.44	<b>\$1.62</b>	<b>\$2.17</b>
<b>Shares<sup>1</sup></b>	189	192	213	276	282	401	421	429	447	465	<b>474</b>	<b>549</b>

Fortis compounded its EPS at 4.8% per year and DPS at 5.9% per year from 2011 to 2020 in C\$. Fortis has a five-year capital plan of C\$19.6 billion through 2025 and expects its mid-year rate base to grow at a compound annual growth rate of 6.0% from C\$30.2 billion in 2020 to C\$40.3 billion in 2025. These support management's dividend growth guidance of 6% per year through 2025. From 2021 to 2026, we use estimated EPS and DPS growth rates of 6%.

The capital plan includes investing in areas, such as a greener and improved grid and a shift from fossil fuel to solar and wind generation. Importantly, this growth rate is *before* the impact of acquisitions, which have historically been important for Fortis. Notably, the picture doesn't look as rosy from a US\$ perspective. In US\$, Fortis compounded its EPS and DPS at only 2.3% per year from 2011 to 2021. The weakened US\$ versus the C\$ since the summer of 2020 has been a tailwind for U.S. investors. Don't bet on that trend to continue.

The utility will use equity offerings as a source of capital to pay down debt or make acquisitions, resulting in a greater number of common shares. Our estimates account for a steady rise in the share count, but just how many shares are issued depends on Fortis' future acquisitions. This is a variable in the outlook that can impact results, particularly if Fortis completes a sizable acquisition funded by stock.

The company will continue to grow steadily as a regulated utility with the goal of reducing 75% of carbon emissions by 2035 compared to 2019. A key part of the plan is to exit all coal-fired generation by 2032.

<sup>1</sup> Years of Dividend Growth and Last Dividend Increase based in C\$. Shares in millions.

Disclosure: Kay Ng owns Fortis shares.



# Fortis Inc. (FTS)

Updated August 4<sup>th</sup>, 2021 by Kay Ng

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.2	14.1	16.9	18.2	17.8	28.1	40.6	21.2	19.9	20.0	<b>20.9</b>	<b>20.0</b>
Avg. Yld.	4.3%	4.1%	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.5%	<b>3.6%</b>	<b>3.7%</b>

Fortis stock averaged a P/E of 20.9 from 2011-2020. Using our 2021 EPS estimate, Fortis trades at a price-to-earnings ratio of 20.9, which we think is fairly valued for the predictable dividend stock. We continue to believe a P/E of about 20 is fair for the highly predictable utility. Fortis is currently trading with a dividend yield of 3.6% (gross of the withholding tax paid to the Canadian government). This is a solid dividend for safe income generation from a blue-chip North American utility.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

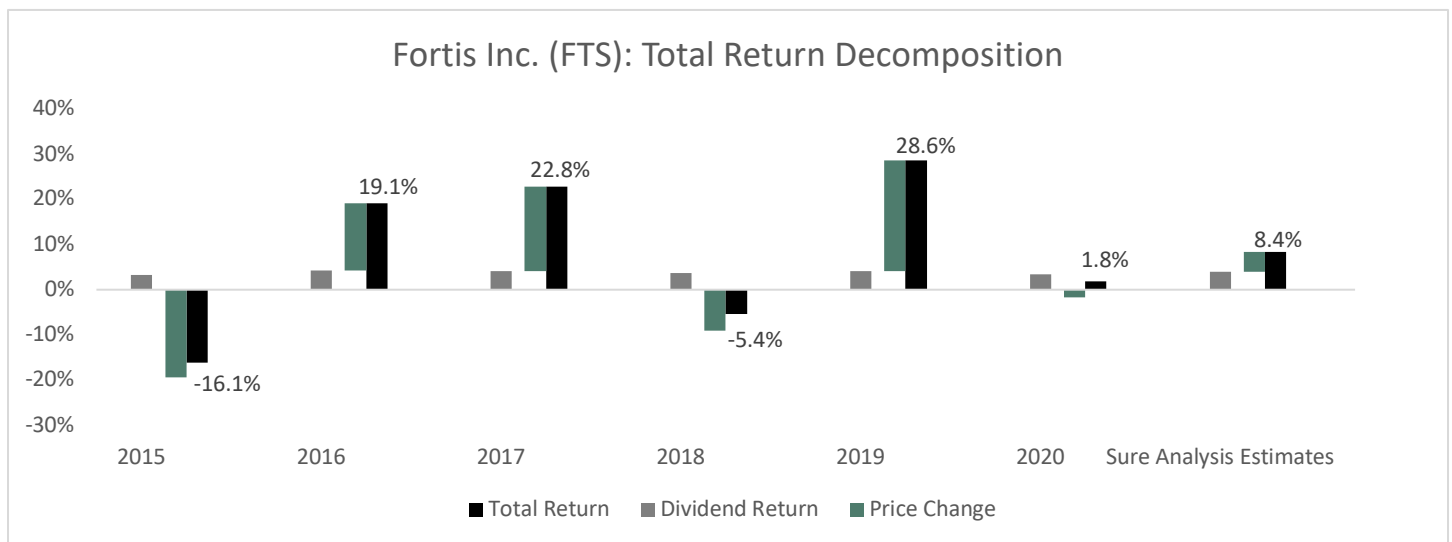
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	71%	70%	75%	74%	72%	65%	62%	70%	72%	71%	<b>74%</b>	<b>74%</b>

Although some of Fortis's business clients are running at lower capacities or are closed temporarily during the COVID-19 period, its residential clients are using more energy at home. Therefore, Fortis's results will be quite resilient against economic uncertainties, including the one we're experiencing during the pandemic, in which it had higher operating costs. Its liquidity position is strong, including C\$4.0 billion of undrawn liquidity available from credit facilities. Fortis' payout ratio had been about 70% of earnings, and we believe it's healthy in the 70% range. The dividend is important to management and we believe it is safe and should continue to rise for years to come. Fortis' competitive advantage is its size and scale. In addition, Fortis is unique because of its cross-border exposure. Its timely U.S. acquisitions of regulated utilities since 2013 have allowed Fortis to now generate more than half of its revenue from the country.

## Final Thoughts & Recommendation

Fortis is a quality North American regulated utility that has a leading position. We estimate FTS will deliver a total rate of return of 8.4% through 2026 from 6% earnings growth, a 3.6% yield, and a P/E compression of 0.8%. Conservative & income-oriented investors can consider buying Fortis, especially on dips.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

<sup>1</sup> Years of Dividend Growth and Last Dividend Increase based in C\$. Shares in millions.

Disclosure: Kay Ng owns Fortis shares.



# Fortis Inc. (FTS)

Updated August 4<sup>th</sup>, 2021 by Kay Ng

## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	3780	3655	3930	4892	5294	5164	6405	6474	6618	6669
<b>Gross Profit</b>	2064	2133	2360	2902	3264	3396	4583	4549	4719	4757
<b>Gross Margin</b>	54.6%	58.3%	60.0%	59.3%	61.7%	65.8%	71.6%	70.3%	71.3%	71.3%
<b>D&amp;A Exp.</b>	421	470	525	623	684	742	910	959	1017	1066
<b>Operating Profit</b>	784	794	827	927	1112	1120	1938	1825	1854	1872
<b>Operating Margin</b>	20.7%	21.7%	21.1%	18.9%	21.0%	0.2	0.3	0.3	0.3	0.3
<b>Net Profit</b>	361	362	398	343	631	498	793	900	1297	951
<b>Net Margin</b>	9.6%	9.9%	10.1%	7.0%	11.9%	9.7%	12.4%	13.9%	19.6%	14.3%
<b>Free Cash Flow</b>	-259	-154	-268	-673	-447	-134	-207	-474	-796	-999
<b>Income Tax</b>	85	61	31	60	175	109	454	127	218	172

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	13923	15028	16819	22598	20757	35530	38029	38950	40883	43509
<b>Cash &amp; Equivalents</b>	85	155	68	198	174	200	260	244	283	195
<b>Accounts Receivable</b>	592	528	331	413	373	376	366	395	386	467
<b>Inventories</b>	131	134	134	277	243	276	292	292	302	331
<b>Goodwill &amp; Int. Ass.</b>	1851	1903	2273	3612	3397	9920	10119	10081	10154	10260
<b>Total Liabilities</b>	9081	9590	10831	14749	13296	23329	24710	25400	25486	27602
<b>Accounts Payable</b>	448	501	397	527	298	411	553	499	577	554
<b>Long-Term Debt</b>	5869	6115	6963	9320	8456	16527	17231	17727	17380	19212
<b>Shareholder's Equity</b>	3745	4013	4482	5919	5808	9623	10640	10947	12944	13390
<b>D/E Ratio</b>	1.27	1.19	1.24	1.24	1.19	1.53	1.44	1.46	1.23	1.31

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	2.7%	2.5%	2.5%	1.7%	2.9%	1.8%	2.2%	2.3%	3.3%	2.3%
<b>Return on Equity</b>	10.2%	9.3%	9.4%	6.6%	10.8%	6.5%	7.8%	8.3%	10.9%	7.2%
<b>ROIC</b>	3.5%	3.3%	3.2%	2.3%	3.8%	2.2%	2.7%	2.9%	4.1%	2.8%
<b>Shares Out.</b>	189	192	213	276	282	401	421	429	447	465
<b>Revenue/Share</b>	19.90	18.53	18.78	21.64	18.60	16.48	15.39	15.23	15.13	14.33
<b>FCF/Share</b>	-1.36	-0.78	-1.28	-2.98	-1.57	-0.43	-0.50	-1.11	-1.82	-2.15

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.