



Fortis Inc. (FTS)

Updated November 1st, 2023 by Kay Ng

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	10.0%	Market Cap:	\$19.7B
Fair Value Price:	\$42	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	11/16/23
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	12/01/23
Dividend Yield:	4.3%	5 Year Price Target	\$55	Years Of Dividend Growth¹:	49
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 3.7% (about 4.3% before the 15% withholding tax applied by the Canadian government). Unless otherwise noted, US\$ is used in this research report. At the end of 2022, Fortis had 99% regulated assets: 82% regulated electric and 17% regulated gas. As well, 64% were in the U.S., 33% in Canada, and 3% in the Caribbean.

Fortis reported Q3 2023 results on 10/27/23. For the quarter, it reported adjusted net earnings of CAD\$411 million, up 20.5% versus Q3 2022, while adjusted earnings-per-share (EPS) rose 18.3% to CAD\$0.84. The company noted that the increase reflected "the new cost of capital parameters approved for the FortisBC utilities in September 2023 retroactive to January 1 2023." It also benefited from higher retail revenue in Arizona due to warmer weather and new customer rates at Tucson Electric Power, effective September 1, 2023, as well as rate base growth across its utilities. "A higher U.S.-to-Canadian dollar foreign exchange rate and higher earnings at Aitken Creek, reflecting market conditions, also favorably impacted earnings." Notably, Fortis raised its quarterly dividend by 4.4% to CAD\$0.59 per share in September. The year-to-date (YTD) results provide a bigger picture. In this period, the adjusted net earnings climbed 17.3% to CAD\$1,152 million, while adjusted EPS rose 15% to CAD\$2.37. The company's YTD capital investments were CAD\$3.0 billion, and it's on track to make C\$4.3 billion of capital investments this year. We raise our 2023 EPS estimate to \$2.22.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.60	\$1.56	\$1.52	\$1.78	\$2.02	\$1.89	\$1.92	\$2.02	\$2.04	\$2.08	\$2.22	\$2.90
DPS	\$1.20	\$1.16	\$1.09	\$1.15	\$1.25	\$1.33	\$1.38	\$1.44	\$1.64	\$1.67	\$1.75	\$2.18
Shares¹	213	276	282	401	421	429	447	465	471	479	488	521

Fortis compounded its EPS at 5.6% and DPS at 6.4% per year from 2013 to 2022 in CAD\$. After releasing its five-year capital plan of CAD\$25 billion for 2024 to 2028, which suggests a mid-year rate base growth at a compound annual growth rate of ~6.3% from C\$36.8 billion in 2023 to C\$49.4 billion in 2027, the company also maintained its dividend growth guidance of 4-6% through 2028. In a higher interest rate environment, we use for our EPS and DPS estimates – 5.5% and 4.5%, respectively, from 2023 to 2028.

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, respectively, at only 3.0% and 3.7% per year from 2013 to 2022.

Additionally, the utility tends to 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. The company will continue to grow steadily as the regulated utility aims to reduce 50% of carbon emissions by 2030 and 75% by 2035 compared to 2019.

¹ Years of dividend growth based on CAD\$; Shares in millions.

Disclosure: Kay Ng owns shares of FTS.



Fortis Inc. (FTS)

Updated November 1st, 2023 by Kay Ng

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.9	18.2	17.8	28.1	40.6	21.2	19.9	20.0	21.7	21.7	18.2	19.0
Avg. Yld.	4.1%	3.7%	3.3%	3.1%	3.1%	2.9%	3.1%	3.5%	3.5%	3.6%	4.3%	4.0%

Fortis stock averaged a P/E of 22.6 from 2013-2022, but the average multiple drops to 20.6 when the 2017 outlier is taken out. We think a P/E of 19 is fair. Using our 2023 EPS estimate, Fortis trades at a price-to-earnings ratio of 18.2, which makes it a fairly valued stock. Fortis is currently trading with a dividend yield of 4.3% (gross of the withholding tax paid to the Canadian government). This is safe income generation from a blue-chip North American utility.

Safety, Quality, Competitive Advantage, & Recession Resiliency

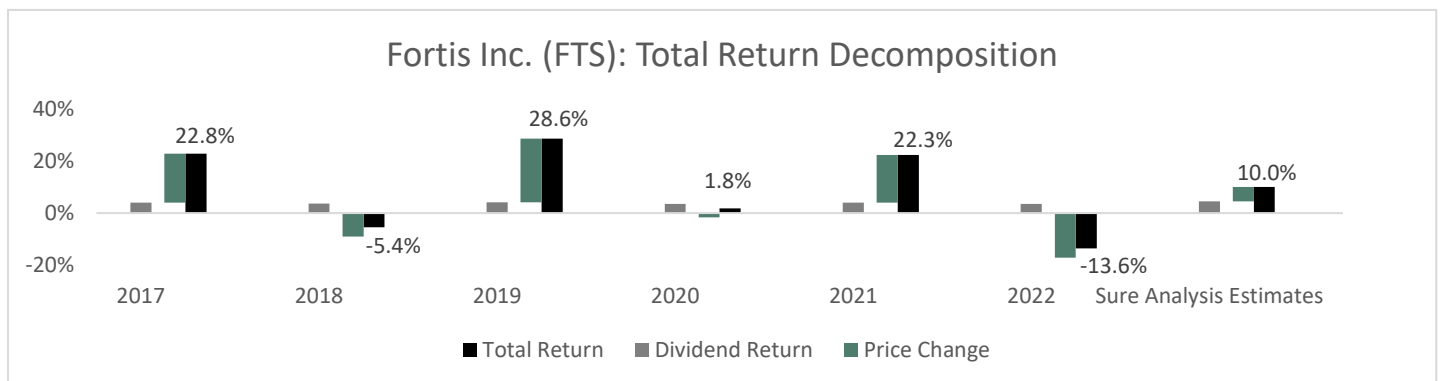
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75%	74%	72%	65%	62%	70%	72%	71%	80%	80%	79%	75%

Because demand for Fortis's utility services doesn't change much in various economic environments, Fortis's results have been quite resilient through economic uncertainties, including the one we're experiencing in which inflation and interest rates are higher than recent history. Fortis's liquidity position is strong, including CAD\$4.0 billion of undrawn liquidity available from \$6.0-billion credit facilities at the end of Q3 2023. Fortis' payout ratio had been about 70% of earnings, which is where it's heading. 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 that country.

Final Thoughts & Recommendation

Fortis is a quality North American regulated utility that has a leading position but like its peers, it's being weighed down by higher interest rates leading to a higher cost of capital, making investments less attractive. Nonetheless, we estimate FTS will deliver a total rate of return of 10.0% through 2028 from 5.5% earnings growth, a 4.3% yield, and a P/E expansion of 0.9%. We rate FTS stock as a buy, especially on weakness.

Total Return Breakdown by Year



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

¹ Years of dividend growth based on CAD\$; Shares in millions.

Disclosure: Kay Ng owns shares of FTS.



Fortis Inc. (FTS)

Updated November 1st, 2023 by Kay Ng

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,930	4,892	5,294	5,164	6,405	6,474	6,618	6,669	7,536	8,488
Gross Profit	2,360	2,902	3,264	3,396	4,583	4,549	4,719	4,757	5,182	5,450
Gross Margin	60.0%	59.3%	61.7%	65.8%	71.6%	70.3%	71.3%	71.3%	68.8%	64.2%
D&A Exp.	525	623	684	742	910	959	1,017	1,066	1,200	1,282
Operating Profit	827	927	1,112	1,120	1,938	1,825	1,854	1,872	1,969	2,106
Operating Margin	21.1%	18.9%	21.0%	21.7%	30.2%	28.2%	28.0%	28.1%	26.1%	24.8%
Net Profit	398	343	631	498	793	900	1,297	951	1,032	1,071
Net Margin	10.1%	7.0%	11.9%	9.7%	12.4%	13.9%	19.6%	14.3%	13.7%	12.6%
Free Cash Flow	-268	-673	-447	-134	-207	-474	-796	-999	-382	-608
Income Tax	31	60	175	109	454	127	218	172	187	222

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	16,819	22,598	20,757	35,530	38,029	38,950	40,883	43,509	45,222	47,342
Cash & Equivalents	68	198	174	200	260	244	283	195	103	154
Accounts Receivable	331	413	373	376	366	395	386	467	487	685
Inventories	134	277	243	276	292	292	302	331	375	487
Goodwill & Int. Ass.	2,273	3612	3,397	9,920	10,119	10,081	10,154	10,260	10,245	10,324
Total Liabilities	10,831	14,749	13,296	23,329	24,710	25,400	25,486	27,602	28,818	30,511
Accounts Payable	397	527	298	411	553	499	577	554	607	653
Long-Term Debt	6,963	9,320	8,456	16,527	17,231	17,727	17,380	19,212	20,064	21,121
Shareholder's Equity	4,482	5,919	5,808	9,623	10,640	10,947	12,944	13,390	13,855	14,299
LTD/E Ratio	1.24	1.24	1.19	1.53	1.44	1.46	1.23	1.31	1.33	1.36

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.5%	1.7%	2.9%	1.8%	2.2%	2.3%	3.3%	2.3%	2.3%	2.3%
Return on Equity	9.4%	6.6%	10.8%	6.5%	7.8%	8.3%	10.9%	7.2%	7.6%	7.6%
ROIC	3.2%	2.3%	3.8%	2.2%	2.7%	2.9%	4.1%	2.8%	2.9%	2.9%
Shares Out.	213	276	282	401	421	429	447	465	471	479
Revenue/Share	18.78	21.64	18.60	16.48	15.39	15.23	15.13	14.33	15.99	17.72
FCF/Share	-1.28	-2.98	-1.57	-0.43	-0.50	-1.11	-1.82	-2.15	-0.81	-1.27

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.