Fortis (FTS-T)

Sector: Utilities

Company Overview

Fortis (FTS) is a North American regulated electric and gas utility operating in five Canadian provinces, nine U.S. states, and three Caribbean countries. Its regulated utilities account for approximately 93% of the company's total assets and serve more than 3 million customers. Importantly, as the U.S. shifts itself to more clean-air energy technology (i.e. wind) and electric vehicles over the coming years, the U.S. will need a massive amount of new transmission infrastructure, and that will help expand ITC's already large footprint south of the border.

Fortis Inc.			
BMO CM Rating	Market Perform	**Target Price**	58.00
Current Price	53.52	**Dividend**	2.29
52-Week High	62.00	**Yield**	4.38%
52-Week Low	49.82	**BVPS**	40.53
Market Cap ($M)	26,386	**P/ BV**	1.3x
FYE (MM/ DD) 12/ 31	**2023A**	**2024E**	**2025E**
EPS	3.09	3.19	3.31
P/ E	17.3x	16.8x	16.2x
EPS Growth	-	3.3%	3.8%

Source: Bloomberg

Investment Thesis

BMO Capital Markets (BMO CM) continues to like FTS's high-quality asset base (virtually all regulated), and attractive 4-6% dividend CAGR guidance through 2028.

Recent Developments

FTS reported Q4/23 adj. EPS of $0.72 ($0.72 in Q4/22), above recently tempered consensus of $0.70 and spot on with BMO CM's $0.72 estimate. Higher-than-expected contribution from UNS Energy (new TEP rates) offset higher Corporate and Other expenses (Aikten Creek disposition).

BMO CM notes the boost in capex (+$330M) at the Eagle Mountain Woodfibre Gas Line project is once again illustrative of FTS's ability to add new rate base opportunities, offsetting recent potential risk to growth projects, such as at ITC (~30% of the US$900M Tranche I in Iowa subject to ROFR legislation) and the recently denied $213M Okanagan reinforcement project in B.C. Accordingly, the $25B capex program was reiterated, supporting a 2024-2028 rate base CAGR of ~6.3% and 4-6% annual dividend growth. On the regulatory front: (1) the Central Hudson rate case is ongoing; (2) FortisBC plans to file a multi-year rate plan with BCUC in 1H/24; and (3) various ITC processes O/S including Iowa ROFR, NOPR of incentives, and MISO base ROE.

Target Price & Methodology

BMO CM's $58 target price is based on a blend of Discounted Cash Flow (DCF) and a forward P/E of 18x 2025 EPS estimate.

Key Risks

1) A sharp rise in interest rates thus increasing FTS's cost of capital and/or reducing FTS's valuation given the appeal of income generating alternatives (e.g. corporate bonds); 2) a "dislocation" in the capital markets limiting FTS's access to financing; 3) foreign exchange risk, as FTS's has assets in the U.S. and Caribbean; and 4) growing competition for power distribution/generating assets thus limiting opportunities for accretive acquisitions.