



FORTIS (FTS.TO) (FTS)

Business Model

Fortis owns and operates 10 utility transmission and distribution assets in Canada and the United States, serving more than 3.4 million electricity and gas customers. The company has smaller stakes in electricity generation and several Caribbean utilities. Subsidiary ITC operates electric transmission in seven U.S. states, with more than 16,000 miles of high-voltage transmission lines in operation serving a peak load in excess of 23 gigawatts.

The Company in a Nutshell

- FTS can continue to expand its business while increasing its dividend for several years to come.
- Management declared that it expects to increase dividends by 6% annually until 2025.
- Fortis has increased its dividend for almost 50 consecutive years.

Investment Thesis

Fortis invested aggressively over the past few years, resulting in strong and solid growth from its core business. An investor can expect FTS' revenues to continue to grow as it continues to expand. Bolstered by its Canadian based businesses, the company has generated sustainable cash flows leading to 4 decades of dividend payments. The company has a five-year capital investment plan of approximately \$20 billion over the period of 2022 through to 2026. Only 33% of its CAPEX plan will be financed through debt, while 61% will come from cash from operations. Chances are that most of its acquisitions will happen in the US. We also like the company's goal of increasing its exposure to renewable energy from 2% of its assets in 2019 to 7% in 2035. The recent market downtrend offers a great entry point at the current price level.

VALUATION

Dividend Growth Rate Years 1-10: 6%

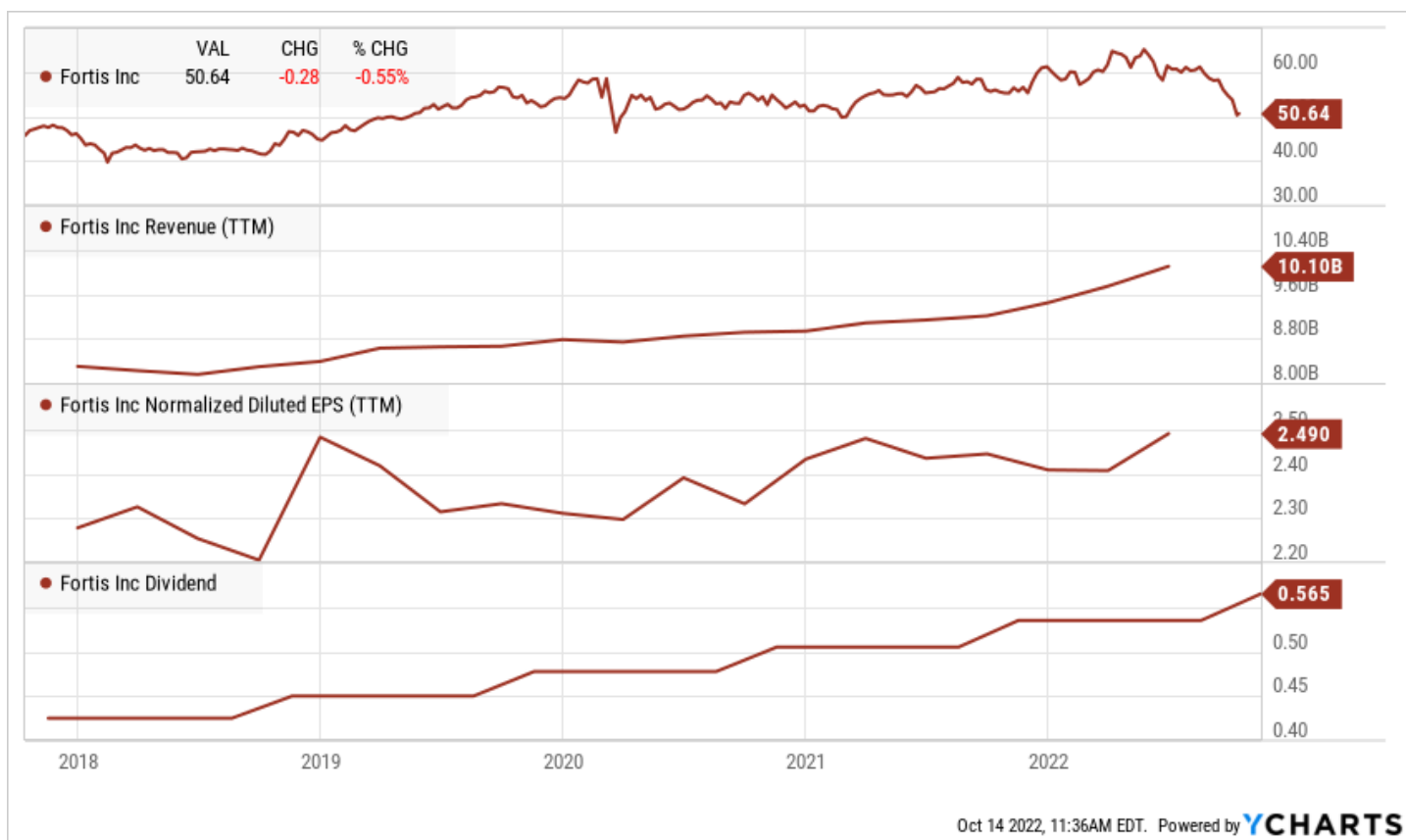
Terminal Dividend Growth Rate: 5.50%

	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$119.44	\$85.18	\$66.15
10% Premium	\$109.49	\$78.08	\$60.63
Intrinsic Value	\$99.53	\$70.98	\$55.12
10% Discount	\$89.58	\$63.88	\$49.61
20% Discount	\$79.63	\$56.78	\$44.10



DSR STOCK CARD

10/14/2022



Potential Risks

Fortis remains a utility company; in other words, don't expect astronomical growth. However, Fortis' current investment plan is enough to make investors smile. Fortis made two acquisitions in the U.S. to perpetuate its growth by opening the door to a growing market. However, it may be difficult for the company to grow to a level where economies of scale would be comparable to that of other U.S. utilities. The risk of paying a high price for other U.S. utilities is also present. Finally, as most of its assets are regulated, each increase is subject to regulatory approval. While FTS has a long history of negotiating with regulators, it's possible to see rate increase demands being revised. Please also note that Fortis' revenue is subject to currency fluctuations between the CAD and USD currencies.

Dividend Growth Perspective

Management increased its dividend by 6% like clockwork for the past 5 years and has declared that it expects to increase dividends by 6% annually until 2025. We like it when companies show motivation for growth through acquisitions and reward shareholders at the same time. After all, Fortis is among the rare Canadian companies who can claim to have increased their dividend for 48 consecutive years. Fortis is a great example of a "sleep well at night (SWAN)" stock.